

103
**PRESIDENT CLINTON'S FISCAL YEAR
1995 BUDGET PROPOSAL**

4. B 85/3:103-21

resident Clinton's Fiscal Year 199...

HEARING
BEFORE THE
**COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES**

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

FEBRUARY 23, 1994

Serial No. 103-21

Printed for the use of the Committee on the Budget



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PRESIDENT CLINTON'S FISCAL YEAR 1995 BUDGET PROPOSAL

WEDNESDAY, FEBRUARY 23, 1994

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:30 a.m., Room 210, Cannon House Office Building, Hon. Martin Olav Sabo, Chairman, presiding.

Members present: Representatives Sabo, Berman, Bryant, Stenholm, Frank, Kennelly, Mollohan, Price, Orton, Pomeroy, Browder, Woolsey, Kasich, Shays, Snowe, Herger, Cox, Allard, Franks, Smith of Michigan, and Inglis.

Chairman SABO. Good morning. The House Committee on the Budget is in session for another in our series of hearings on the President's fiscal 1995 budget requests. This morning we welcome William J. Perry, the Secretary of Defense.

We are pleased to have you with us, Mr. Secretary. You are new to this job, but fortunately not to the Defense Department.

I note that you were in Italy Sunday night, where you and other NATO defense ministers were faced with the decision about bombing the Serbian positions above Sarajevo. You decided that the situation was sufficiently improved to make bombing unnecessary at this time.

Mr. Secretary, your wide experience in the academic world and in the business world of high technology, as well as your knowledge of the Pentagon, should also be useful in this time of transition for the defense establishment.

You come before us with what is the first real post-cold war budget, developed as a result of the Bottom-Up Review conducted last year by Secretary Aspin. The budget calls for further reductions in defense spending. The President has asked us to hold the line there and go no further.

Despite the civil wars, hunger and uncertainties around us, the breakup of the Soviet Union has brought a dramatic reduction in the strategic dangers faced by this Nation and the world. Yet, the budget requests for the defense function at nearly \$264 billion is still in real terms almost 90 percent of the average annual defense funding maintained during the entire 40-year cold war period.

The funding request is said to be in line with the conclusion of the Bottom-Up Review that the U.S. and its allies must be able to fight and win two major regional conflicts occurring in the same time frame. Some experts have suggested recently that your funding request relies too little on the allied help that could be expected

in any justified conflict, and too much on U.S. military power alone. Others suggest there is not enough funding to fund two regional conflicts at the same time.

I am curious to the degree that that basic assumption really gives us the type of forces we need for what is likely in the future. I am struck that we have so many young men and women today that are being asked to go to hot spots around the world, and they seem to be the same people. While many seem never to be deployed, others are going constantly. And so the nature of some troops are that they are on call constantly.

You will also find out this morning that some of our colleagues are wondering why the Pentagon needs an additional \$11 billion to finance a pay raise when other departments of the government have to absorb a pay raise.

Looking over your budget, I am impressed that the proposed spending cuts come for the most part from the areas of personnel. In the post-cold war era, we no longer need so many uniformed or civilian personnel. At the same time, the funding for readiness is actually increased, and funding for operations and maintenance is maintained.

Mr. Secretary, I look forward to your testimony.

Chairman SABO. Mr. Kasich.

Mr. KASICH. Thank you.

Mr. Chairman, I first want to say I was on the edge of my chair last night because I was hoping Norway would win that cross country ski competition. They were just edged out at the end.

Chairman SABO. Sometimes justice does not prevail.

Mr. KASICH. Exactly right.

I want to say, Mr. Secretary, I don't know whether you know this, but I was one Republican for you for this job. I was a friend of Les Aspin's, and I know I won't ever get on a ledge with Les Aspin in this town. I told him to get a dog, that is how he could get a real friend. When Les lost his job and they were mucking around trying to figure out who to put in this job, I felt you were the best person, and I think you will do an outstanding job. I want you to know that you have my support in terms of trying to ensure an efficient but strong national defense.

And I must tell you I have been at odds with my own party over the issue of defense, because there have been things that I didn't think were necessary that we were doing. Chairman Dellums and I fought to kill a major weapons system, and that was just the first of many things that I did to try to have an efficient but strong national defense.

I feel compelled at least to spend a second here with some charts to show you what my concern is. I am interested in looking at the numbers that Chairman Dellums had out there yesterday. What concerns people is that national defense, as a percent of the GDP is shrinking to very low levels.

And even though I keep hearing that this budget only represents a small cut from where Bush wanted to be, we are talking about base lines, and as you know, there is no baseline for defense spending. It is just like a pig in a poke, just pull any baseline you want out of a bag, and that is the baseline where we will be.

But what we find is a significant decline in the percentage of GDP spent on national defense. I look at defense like I look at a fire department. No one cares about the fire department until their house catches fire. Then when you don't have a ladder and your house burns down, then you have a problem. That is why it is important that we not cut it too deeply.

The President said he wanted to cut it \$60 billion during the campaign, and we are over \$120 billion, which is twice the amount of cuts.

In about 1999 we will be spending the same amount of money on interest on the national debt as we will be spending for the national security needs of the world's last remaining superpower.

Then I know you made an argument about the fact that readiness spending is still staying high. What has been happening in the Defense Department is something I have been concerned about. There is a shift of funding from the core defense functions to nondefense spending. Non-core defense spending includes the retraining of folks, and if you take a look at the green, Department of Energy environmental spending.

So while you may be able to make an argument that the readiness accounts are up, the readiness accounts that have traditionally gone to keep our forces ready are shrinking. More money that you are spending in the readiness accounts is not going to the soldiers.

The tragedy is that over time, we will have a wearing away of the basic readiness of our military forces, and we will see it in the field. And I take you back to the days of the helicopter rescue mission against Iran and the dismal state we found ourselves in as we approached the 1980's.

But this chart shows the numbers that we have to cut to get to where you want to be is in 1995, \$1.9 billion. I will tell you that for the 1994 budget, I helped Chairman Dellums get the Republican votes to pass that budget. In fact, my own party was whipping against it and I told them I thought Dellums had kept his word and he should have our support in the first year.

Obviously, the kind of cuts we need to make in 1995 are doable and perhaps we can even argue they are doable in 1996. But I would say to you and to the Chairman, I don't know how you are going to do this \$28.5 billion, \$37.1 billion, and \$45.8 billion.

We hear a lot about the Bottom-Up Review, which I don't think anybody quite understands. I think it is time to put the cards on the table in terms of what you are going to cut. What systems are going to be cut? Are we going to have to make deeper cuts in personnel? And frankly if we don't get started on these out-year numbers, we are not going to be able to achieve them without even more drastic measures. What you cut today doesn't always get spent out until tomorrow, as you know, Mr. Secretary.

But these numbers are absolutely devastating, and every member of this committee should know, every Member of this Congress should know those kind of cuts mean big impacts not only on national security but on their districts.

So these are my concerns, Mr. Secretary. I am glad you are in the job to try to deal with it. I hope you will get us all together

to say, We need to change a few priorities if we are going to have a global commitment to peace in the world.

Thank you, Mr. Chairman.

Chairman SABO. Before the Secretary begins, let me indicate my understanding is that the Secretary has to leave about 12:30.

Secretary PERRY. That is correct.

Chairman SABO. Thank you, Mr. Secretary.

STATEMENT OF HON. WILLIAM J. PERRY, SECRETARY OF DEFENSE

Secretary PERRY. During Mr. Kasich's comments about the interest in defense accelerating during times of crisis, I was reminded of the famous Kipling poem, remembering that the British called the soldier Tommy, it was "Tommy this and Tommy that and Tommy gets the boot, but it's Tommy come a-running when the guns begin to shoot." That captures very nicely the point you were making.

I hope and expect that my presentation today will address the very points which both the Chairman and Mr. Kasich made. Instead of presenting you, as is typical in these budget hearings, long lists of statistics and charts about how the budget is divided, I intend to describe to you the strategy with which the budget was put together.

The budget is the most powerful tool which the Secretary of Defense has for implementing defense strategy. Through this budget process, I set my priorities for the Department. And today I want to talk about how this budget reflects that strategy, and I want to share with you my priorities and lay out the rationale for my choices, so you need not argue only about specific decisions, specific programs, but you can also elevate the debate to the level of what were the priorities and what were the choices and what was the strategy that we're supporting.

And to begin this, I would like to point out the five underlying themes for putting the budget together. (Chart 1) First of all, going back to the Chairman's comment, this was put together to implement the bottom-up force structure. I will explain in more detail what I mean by that.

Second, it protects a ready-to-fight force, as it does put a strong emphasis on readiness, and I will defend that position to you, taking into account the point Mr. Kasich made.

Third is a major redirection of our modernization program. I will explain both the elements of the modernization we are preserving as core and fundamental and the very dramatic decrease in the rest of our modernization program. This budget forces us to do business very differently.

The defense drawdown we are going through does not permit us to maintain the same overhead structure, the same ways of doing business as we did with a much larger force structure. And I will explain what we are doing to address those points.

Finally, as a result of the drawdown of the defense budget, there are large chunks of defense dollars being reinvested in other parts of the Federal budget or being used to reduce the deficit, and there is a small part which is being reinvested within the defense budget.

Let me get to the first point now, which is the force structure that was determined by the Bottom-Up Review. (Chart 2) On this chart, we have represented the cold war base force in 1990; it shows 18 active Army divisions, 24 active fighter wings, 546 Navy ships as benchmarks for the size of the force.

Then under the Bush Administration, Secretary Cheney began a reduction to what he called the base force. It anticipated geopolitical changes and began to reduce the military force to accommodate that. And again, picking out a few highlight numbers, the number of active Army divisions went from 18 to 12. The ships went from 546 to 430. And the active fighter wings went from 24 to about 15.

Now, the last column represents the force structure called for in the Bottom-Up Review. We are moving from 18 to 12 all the way down to 10 active divisions, and interspersed between those two is what is reflected in the 1995 budget which we are submitting to you today; that is, we still are at the level of 12, which is the base force number of divisions. We still have two more divisions to cut out in order to reach the Bottom-Up Review goals.

In terms of ships, the base force called for 430. The Bottom-Up Review calls for 346. We are almost there in this plan, as we go down to 373 ships.

In terms of active fighter wings, base force called for 15, the Bottom-Up Review for 13. And we are there. Fiscal year 1995 will take us to that level.

So this gives you some flavor of the extent of the drawdown in force structure and the pace with which we are pursuing it.

(Chart 3) The next chart then reflects the force structure change in personnel levels, man- and woman-power levels. We see here three different areas: active military, selected reserves and civilians. Let me pick out the active military. In fiscal year 1985 we had 2.1 million. In fiscal year 1990, at the start of the base force planning, barely down to 2.07 million, and then the Bottom-Up Review calls for going down to 1.46 million. That is about a one-third reduction in the personnel and military forces.

This fiscal year 1995 budget submitted to you gets us almost to that final goal. It gets us down to 1.52. We will have another 60,000 to reduce in fiscal year 1996 to get all the way down.

Shifting over to civilians, it shows a drawdown of 1.1 million in fiscal year 1985, to 804,000 in the Bottom-Up Review, and again in fiscal year 1995 we will be almost there with 873,000.

Now, if you take those personnel changes and reflect them over to budget dollars, that is what is reflected in the next chart. (Chart 4) I plotted this back to 1975, and projected forward to the end of the buildup in fiscal year 1995. I have reflected these constant 1995 dollars so the effects of inflation are reduced and you can see the real dollar effectiveness.

Notice that from 1975 to 1990, there was very little change in the budget in the cost of civilian and military personnel.

All of the decrease is from 1990 to 1999, in the decade of the 1990's; and if you look at the chart, you see we are going from a level of about \$125 billion manpower costs to about \$90 billion, so there is about a \$30 to \$35 billion real decrease in expenditures in

personnel that has taken place over the decade of the 1990's. Between 1975 and 1990 there was no decrease in cost for personnel.

Now, we are saving some money from that. What are we doing with the money? A good bit of it is going into readiness. That is to say, some of the money is decreasing the top line for the defense budget, but some of it is going into readiness. We made a conscious decision that we would rather have a highly ready small force than a poorly ready large force.

So I showed you the reduction in the force structure before. Now, let me comment on readiness. The force structure is down 7 percent, O&M funding increases 5.6 percent.

I want to emphasize the point, however, that Mr. Kasich made. You should not take all of that 5.6 percent as being readiness related. This O&M account is a large grab bag that accommodates many activities, and only some of those related to readiness. So this is only a rough indicator. But it does reflect a Secretary of Defense judgment and a Secretary of Defense choice, and that is, even though the force structure is coming down 7 percent, the O&M account will be going up. So it is not just a matter of looking at the 5.6 percent increase, it is comparing it to the decrease in force structure.

This directly relates to the point Mr. Kasich made. Each of the services put in a portion of the O&M budget for operations. This budget fully funds activities in that category.

The third bullet directs a subaccount of O&M directly related to readiness, and that is the depot maintenance funding. They are increasing that 20 percent. This is the funding which has most to do with the operational readiness of our equipment in the field.

And finally, we maintain a steady budget level for recruiting because even though the personnel levels are coming down in the military services, we are still bringing new young men and women into the services at the beginning ranks.

Now, let's look at readiness a different way. (Chart 6) I will start off this chart with a very large caveat. There is no single number which captures readiness. Certainly the O&M account does not do that. But to give you at least a flavor for a macro view of the decisions we were making and how they are reflected, I have taken the total operating resources in the budget and divided that by the number of combat battalions, by the number of ships and by the number of aircraft to get a flavor of whether the number of ships, aircraft and battalions go down, whether the operating resources go down too, which is what you would ordinarily expect to happen.

Instead, you see here from fiscal years 1993 to 1995 that there is a 14 percent increase in the operating resources for each of our combat battalions, 11 percent for each of our ships in the Navy, and 12 percent for each of our aircraft. This reflects an increased emphasis on trying to pour in resources to support the fewer number of ships and aircraft and combat battalions that we have.

(Chart 7) There is another way of representing that number, again, a very crude rule of thumb, but it gives you an indication. If we simply take all the military end strength, which I showed you in the previous chart, and divided it in the total O&M account, the Army shows a 10 percent real increase over the 2-year period, the

Navy a 9 percent real increase, and the Air Force a 17 percent real increase.

Now, these numbers reflect more than anything the services' priority on readiness, and they also reflect the Secretary of Defense's priority. This year, for the first time in the budget guidance submitted to each of the services, in the first page of the budget guidance, the Secretary of Defense, in this case Secretary Aspin, was saying to the services, "You will make readiness your first priority in your budget determination, and any other guidance I give you in this document may be traded off against readiness." That was as direct and categorical a statement as he could possibly make in giving direction to the services.

(Chart 8) Let me go from there to the effect of the modernization program. These five bullets represent Mr. Deutch's—our Under Secretary for Acquisition and Technology—priorities for putting together the budget. Whatever happened, he wanted to sustain a strong science and technology base, because once that is eroded, it takes decades to try and build it up again.

Second, he is continuing investment in a very select group of next generation weapon systems, much smaller than we have ever done in the past. I will show you that in a moment. But it includes, for example, the C-17 and the F-22. It completely refocuses the ballistic missile defense program, taking away the emphasis on space-based systems, taking away the emphasis on continental defense of the United States, and moving instead towards a development and production of a theater missile defense system.

It does sustain a strong intelligence program, because in this uncertain world we live in today, more than ever we need to sustain a strong intelligence infrastructure.

And finally, it takes some specific actions to preserve key elements of the industrial base that would otherwise disappear.

Let me just give you one example of that, a very controversial example, I might say. From force structure considerations, we have concluded we could get by with taking the attack submarine fleet from almost 90 submarines to a number just over 45. In other words, we are cutting the attack submarine fleet in about half.

Given that judgment, we could have taken a pause, perhaps a 7- or 8-year pause in the building of new submarines, and then resumed that again in the next century. We elected not to do that because the building of nuclear submarines is such a unique capability that we were fearful we would forget how to do it; we would lose the fundamental technological and process understandings that were necessary for building them.

So instead we elected to keep a very slow building pace going, and we are building one more Seawolf submarine, and that is reflected for that reason. It was done to keep the industrial base alive, not as a favor to the community, but because we felt from a defense point of view we needed to maintain that capability.

Now, the next chart gives you the bad news on the modernization program. (Chart 9) This is the single most dramatic chart I will be showing you today. This represents, again in constant 1995 dollars, the expenditures and procurement in R&D, in aggregation called modernization, from fiscal year 1975 to the end of the FYDP, fiscal year 1999.

As you see in this, there is a very large increase in procurement that began at the end of the 1970's, and reached a peak in fiscal year 1985, that has been dramatically declining since then, and in this FYDP that we are talking about, continues to decline to a low in about fiscal year 1996.

I will show you what that means in terms of buying airplanes and ships in just a moment, but I wanted to give you the fiscal effect of it first.

I also wanted to point out two other things. First of all, we are maintaining the R&D budget at only slightly decreased levels from the peak, and significantly more than what it was in the 1970's. And secondly, if you look carefully at the last 3 years on that chart, you will see that there is an increase in procurement scheduled for the last 3 years.

The reason for that is that we felt we could take very deep cuts in procurement over the last few years and for the next few years, because we have, as the force structure comes down, an excess inventory. We have more submarines than we need, more airplanes, more tanks than we need, so we are living off that excess during that period.

By fiscal year 1996, much of the equipment starts to become obsolescent and we have to start to replace them. So there is some projected increase in procurement in the last 3 years of this FYDP.

This shows the effect of that decline in the modernization account. (Chart 10) I will pick out the key numbers from it just to give you a flavor.

The left-hand side of that chart shows the number of ships being built, and to take the blue column, which is fiscal year 1985, and the green column, which is the one at the end, fiscal year 1995, we go from 29 ships to six ships. Next is aircraft, we are down 86 percent. We are going from 943 aircraft to 127.

In tanks, we are going from 720 to zero. The fiscal year 1995 budget includes no resources for building new tanks. Incidentally, we are maintaining the industrial base for tanks by taking the M-1 tank and having it rebuilt in fiscal years 1995 and 1996. This is not a totally satisfactory way of maintaining the industrial base, but it is a way of keeping key core people involved in the tank production facility.

And finally in strategic missiles, they are down dramatically from 307 to 18. This affects buying ships, airplanes, tanks and missiles, and all of you who have defense industries in your districts understand what this effect means in terms of the business base or the market base of those defense companies. This has a devastating, and will continue to have a devastating, impact on the defense industry, which is why we have to pay some attention to maintaining the defense industrial base.

All of these changes require us to do business very differently indeed. (Chart 11) And the first issue on this is, we must dramatically reform our acquisition process. Even if one could argue that the system we had during the 1970's or 1980's was adequate for the acquisition needs in those days, and I would not make that argument, it is clear it cannot do with the greatly reduced program of acquisition we have today.

The key elements in our acquisition reform program are to open defense buying to the entire industrial base, so we are not limited to this very narrow section which is called the defense industry, which is going to become more and more narrow as this budget draws down.

In order to get access to the industrial base, we have to change the processes we are using and eliminate the unique military specifications we call for—not eliminate them altogether but greatly reduce them. And secondly, change the processes by which we buy so we do not discourage commercial vendors by our buying procedures.

Additionally, our financial management system, I am sorry to report to you, is archaic and inadequate to the task of managing the Department in a financial basis in any businesslike way. So we will be undertaking a major reform in the financial management system.

There is some funding in the fiscal year 1995 budget for doing both of those activities, because in the first year or 2 some investment is required in order to get the savings which we hope are dramatic in the out years.

The third bullet talks about the funding for base closures. This budget, for fiscal year 1995, has funds in it for the base closures that have already been made, and the ones we anticipate being made in the BRAC 1995.

The point that I want to make on this bullet is while base closures will ultimately save us money, the first 3 years of a base closure is an expense and a drain on defense resources, not a savings.

And then finally, I want to emphasize—and this is a very specific point that Mr. Kasich made—we are spending \$5.7 billion for environmental restoration in this budget. We have no real options on that. This is what is required to comply with the law and regulations.

We do have an option, though, of whether we continue the practices which led to this kind of a bill. So we are also investing money in something called pollution prevention, so that 5 years or 10 years from now, we are not faced continuously with the problem of cleaning up the messes we have made. That is an investment, the first part of which is required, the second part of which is a judgment, and we made the judgment we should make an investment in that category.

(Chart 12) A small part of this investment, a small part of this budget, is going for what we call defense reinvestment; that is, taking some of the defense money and using it in ways that can be of assistance to the overall community and the overall economy. The largest and most significant of these is the so-called dual-use technology, and the most important part of that program is the Technology Reinvestment Project.

These are R&D programs where we invest significant funds to develop defense technologies which are also highly applicable to commercial products. We go into a cost sharing with the companies involved, half of the money in general coming from defense and half from the company itself, so that we can both benefit from these investments.

I believe this has been a very successful program and we intend to continue and, indeed, extend it into the future. The other two items, personnel transition assistance and community assistance, in which we are investing \$1.2 billion, are investments we have to make to mitigate the effects of drawing down on personnel so rapidly and in closing bases.

It is assisting personnel in retraining and finding new jobs; and it is assisting the communities by mitigating the effects of a large economic base being taken out of their communities.

I am making a final strategic point here, and then I will show you a few more numbers. (Chart 13) The strategic point I want to make, which is responsive to the Chairman's introductory remarks, is that this budget is more than a set of numbers. It is a strategic investment plan. This plan is based on the Bottom-Up Review; and therefore, it provides the basis for a common understanding of what our strategic needs are.

Finally, it connects that strategy outlined in the Bottom-Up Review with dollars and resources. And you can look at this problem from either end. You can either look at the dollars and say, "These are more dollars than I want to spend, I want to change them" so then you have to go back and change your strategy accordingly; or, you can go back and change your strategy and then we would have a basis for coming up with a new budget—a new need for resources.

I hope by this connection to elevate the debate on this whole subject of how defense spending will go.

(Chart 14) This chart represents the 1995 Federal outlays. This is the President's budget, and breaks it out into these categories. Entitlements, you have seen these charts many times before, but all I want to do is make a single point from this. If you take out entitlements and debt interest, what is left to work with turns out to be \$251 billion in domestic programs, \$271 billion in the defense program, and \$21 billion internationally.

In the fiscal year 1995 budget, defense has 18 percent of the total Federal budget; and as I will show you in a few minutes, that gets down to about 13 percent of the Federal budget in fiscal year 1999.

(Chart 15) The next chart takes those defense outlays, and this is the same chart Mr. Kasich showed but for slightly a longer period, and shows the whole panoramic view from the Korean war to the end of the century. As you look at this large view, you get some very interesting perspectives. These, of course, are in real dollars that I am presenting to you. It shows an economical downward trend. If you try to draw a smoothing line through there, it would, of course, be downward. It shows three peaks; one is a very large peak during the Korean War when we were spending almost 12 percent of the gross domestic product on defense.

Another large peak was during the Vietnam War, 9 percent of the GDP on defense, then the peak during the Reagan defense buildup when we were spending 6 percent. The FYDP which we have presented to you today calls for that number to go down to 2.8 percent of the gross domestic product in 1999, and in fiscal year 1995, the specific budget you will be considering, it is down to 3.4 percent.

Now, this simply makes the point that Mr. Kasich made only in Asia a more panoramic view.

(Chart 16) The next chart, instead of a GDP, shows it as a percentage of Federal outlays—simply a different way of looking at it. You see the same three peaks. Those three peaks are: the Korean War, 57 percent of the Federal outlays, the Vietnam War, 43 percent of outlays, and the cold war peak spending, 27 percent of the outlays. The percentage of Federal outlays is projected to go down to 13 percent by the end of fiscal year 1999, and as I have already told you, just under 18 percent in fiscal year 1995.

(Chart 17) This is another way of looking at the budget changes. This is looking at the cumulative real changes in the decade of the 1990's. And if we look at the mandatory spending increases, we see a 38 percent increase. If we look at domestic discretionary spending, it increases 12 percent. And if we look at the defense outlays, they decrease 35 percent. This does not include some of the defense drawdown that occurred between 1986 and 1990. This is just in the decade of the 1990's.

Mr. KASICH. Don't show that to Murtha.

Secretary PERRY. This answers the question, I think, about where is the money for the deficit reduction is coming from. To the extent it is coming, that is where it is coming from.

Now, this finally is the typical budget presentation position. (Chart 18) I thought I owed you actually putting the numbers up here. This represents fiscal year 1994 through the FYDP, 1995 through 1999. It outlines the dollars now, in current dollars. Everything I have shown you up until now is corrected for inflation. These are current dollars. And you see the numbers. It looks like, in round figures, that we are holding about constant in defense in current dollars.

We represent the real changes in the last line if you would indicate that there in 1994, there was a 9 percent real decrease. In 1995, much smaller, 1 percent real decrease. We are projecting a 6 percent and 4 percent real decrease in 1996 and 1997. Then I have already told you we expect procurement spending to go up at the end of the decade, so you see now we are about holding flat on the budget. We are not projecting decreases during that period.

Mr. Chairman, Mr. Kasich, that summarizes my presentation to you. It attempts to explain the underlying strategy, the choices which we had to make, and how we made those choices. I would summarize a few very major points.

First of all, the top line in the budget, over the FYDP we are presenting, is essentially constant in real dollars. Essentially constant in current dollars, it shows about a 12 percent decrease in real dollars, taking it to a total decline of about 40 percent from the peak in 1986 to the end of the FYDP period.

Second, the choices that we have made, within that top line, are to bring force structure and modernization down so that we could support readiness and so that we could support the decline that you see.

The one element which we have hung onto is the readiness funding. It is the only one that has not gone down. And we have done that for reasons which I have already described.

I cannot tell you at this point that that allocation to the O&M account will be sufficient to maintain the high levels of readiness we now have, because it is a very complex issue, and we cannot break out every detail of the O&M account as to what its effect on readiness will be, but it is a serious effort to carry out the strategy of reduced force structure but maintaining a highly ready force.

Thank you, Mr. Chairman. I am prepared to take your questions. [The prepared statement of Hon. William J. Perry follows:]

PREPARED STATEMENT OF HON. WILLIAM J. PERRY, SECRETARY OF DEFENSE

Mr. Chairman, members of the committee, it is a pleasure for me to be here today to present President Clinton's fiscal year (FY) 1995 defense budget.

During my confirmation hearing, I laid out six responsibilities for the Secretary of Defense. One of the responsibilities is to prepare the annual defense budget that allocates resources and makes program decisions.

The budget is a powerful tool through which the Secretary implements defense strategy. Through the budget process, I as Secretary set my priorities for the Department. Today I want to talk about how this budget reflects the strategy we have adopted to build a post-Cold War Department of Defense (DoD). I want to share with you my priorities and lay out the rationale for my choices. For the budget is about choices. We could pretend that every decision was based on pure logic, but we know that is not so. Nor is there enough money to cover every option, to hedge every bet. I expect discussion, perhaps even challenges. It is time to open the debate.

Today I am presenting a post-Cold War budget. It reflects the realities of our inherited force structure. We have a quality force, but the size of the force structure is both a blessing and a burden. We have large stocks of top-quality equipment, which in FY 1995 continue to provide options regarding future modernization. We also have a force larger than we need, one that requires a few more years of downsizing, and an infrastructure that requires further shedding, a process which we have discovered has heavy up-front costs.

DEFENSE THEMES

(Chart 1) There are five major themes which I would like to highlight in this budget.

First, it implements the Bottom-Up Review.

Second, it protects a ready-to-fight force. It tells you what we have done to put reality into our rhetoric about readiness.

Third, it redirects our modernization program, taking advantage of our existing force structure while planning for the future.

Fourth, it starts to do business differently. There are serious fiscal implications if we do not manage better. Without management changes, we will not have sufficient funds for the future. As it is, we know that we have to plus-up the procurement accounts in the outyears to begin the process of "recapitalizing" the force. If we fail to manage better, overhead will drain funds from other accounts. We will have no choice but to rob from readiness or increase the topline.

Finally, this budget reinvests defense dollars into other areas of the economy, including deficit reduction.

POST-COLD WAR FORCE STRUCTURE

(Chart 2) Let me begin with force structure. The Bottom-Up Review served as the heart of our force structure planning. The Review concluded that our basic force structure should be sized to fight two medium-sized regional conflicts (MRCs) nearly simultaneously, and it defined the minimum needed force structure. Additionally, we allowed the requirement for overseas presence to help size the force. The structure we proposed then, and which is supported by this budget, allows us to meet these requirements.

Our budget continues the drawdown begun by the previous administration and takes it to the BUR levels at the end of the Future Years Defense Program (FYDP). In some areas, we will reach these levels more quickly, an important factor since significant savings will accrue and be available to plow back into other investments. We are already close to the BUR level of four Marine divisions; we are getting close to 346 ships and the 13 active fighter wings. In other areas, we are on a more gradual glide path because we need to make the enhancements that will help us com-

pensate for a smaller force structure. When we reach the BUR levels, the overall force structure will have come down about 30 percent from its peak in the '80's.

MANPOWER

(Chart 3) The overall manpower levels have come down as you would expect with the declining force structure. One notable change is the increased emphasis I have placed on reducing the civilian support structure in a way that is commensurate with the drawdown in military forces. This is a painful process, and we must continue to fund the programs that allow us to minimize RIFs. We must also adequately fund employee transition programs that permit discharged military personnel the best possible chance to find work in the civilian economy.

The good news in this process is that, with the '95 budget, we are almost at the end of the personnel drawdown. So the personnel turbulence which so heavily affects morale will be largely behind us at the end of the '95 budget year.

(Chart 4) During the Cold War the costs of manpower stayed about level. Now we are cutting deeply in this area. The savings from a smaller force structure are considerable, about \$36 billion. We are already realizing most of these savings. This is the prime example of a choice in priorities. We have chosen to cut force structure in order to preserve readiness. This is the opposite of the judgment we made in the 1970's when we maintained a force of 2.1 million people, but deeply cut the Operation and Maintenance (O&M) accounts. That approach led to the "hollow force" of the 70's. Instead, we have determined that we can effectively function in the post-Cold War era with smaller forces, if those forces are ready.

PRIORITY ON READINESS

(Chart 5) We are taking those savings and investing them in the Operation and Maintenance accounts as the most direct way to preserve readiness. While the force structure will decrease 7 percent between FY 1994 and FY 1995, we have increased O&M funding by 5.6 percent. We have also fully funded Service Optempo requests. We have also decided that even while weapons inventories are shrinking we need to increase depot maintenance funding by 20 percent. Finally, we are maintaining the budget levels for recruiting. FY 1994 was as good a recruiting year as ever in terms of numbers and quality, but we must counteract the popular perception that we can no longer offer full careers. We must resist the temptation to save dollars on recruiting.

These are areas where the Secretary of Defense can make his priorities known. I cannot go out and repair a broken airplane or ship, but I can make sure that the military services give readiness their highest priority. We even put this instruction into the front end of the fiscal guidance. The services were told that readiness is the first priority and that all other guidance could be traded-off if they needed to program funds for improved readiness.

(Chart 6) One of the challenges in making this sort of decision is to find ways to explain the effect that added funding for readiness will have. One of the best ways we have found is to look at the funding per unit of military activity—the funds available to operate a plane, a ship, or a combat battalion. Through this measure we are able to show, by activities and capabilities in the field, the relative increase in funding we have provided for readiness.

(Chart 7) We can also look at the increase in funding relative to the manpower levels in each service. For example, you can see that the Air Force has chosen to increase its O&M relative to Air Force end strength.

This dollar emphasis on readiness translates into people's ability to do their jobs with high confidence of success. Needless to say, increased funding for training and maintenance is important for morale.

MODERNIZATION APPROACH

(Chart 8) The next priority I have set for the Department, with John Deutch's help, is to redirect our modernization programs. Again, this decision is consistent with the strategy laid out in the Bottom-Up Review, which premised our two MRC strategy on force enhancements.

First, we will sustain a strong research and development effort. I firmly believe that we can and must continue to provide our forces the kind of advantage we had in Desert Storm. In the business world it might be called an unfair competitive advantage, but in combat it is called winning, and winning with minimum casualties. Additionally, a strong R&D effort is essential to provide a foundation if we ever have to reconstitute our forces.

Second, we need to continue to buy some next generation weapons. This is our commitment to the next generation of Americans. The C-17 is crucially important to the Bottom-Up Review strategy. We are also forging ahead with the F-22. But these are a select few programs.

Third, we have refocused the Ballistic Missile Defense Program to give first priority to theater defenses.

Fourth, have emphasized intelligence. We cannot dismantle it. The world is a dangerous, uncertain place, and many of the diverse threats we face today are difficult intelligence targets.

Finally, we want to preserve key elements of the industrial base that would go away if it were not for our support. This may be one of the most controversial decisions we have made, and I would be happy to discuss it at length.

(Chart 9) For the past twenty years the procurement budget has been on a roller-coaster ride. Research and Development has been more stable; it has come down some, but it is still higher, in constant dollars, than in the late 1970s when we developed the weapons used in Desert Storm. I want to maintain R&D at a robust level.

The most difficult choice we have made is on procurement, and this will be a point of contention for many with this budget. First let me say that we cannot sustain these low levels of procurement for long, and we are projecting an increase beginning after '95, when it goes up by 20 percent between '96 and '99.

(Chart 10) We plan to continue the drop-off in near-term procurement that started in the Bush Administration. We will go from 20 ships in 1990 to six in 1995, from 511 aircraft in 1990 to 127 in 1995 and from 448 tanks in 1990 to zero in 1995. The tank story is not a complete picture since we are doing some upgrade work, which keeps the industrial base warm, but the contrast to the recent past is dramatic.

There are two reasons for this drop off. First, we are projecting a much smaller force structure, down 30 percent. And even when we hit a steady state, we will have smaller buys than the past. Second, as our force size goes down, we can live off the inventory we built up for the Cold War.

The biggest challenge we will face during the transition will be fine-tuning the industrial base. Attack submarine forces is a good example. Based on a 90-sub force with a sub life of 30 years, the required build rate would be three per year. A projected 45-sub force would require only one-and-one-half submarines to be built per year. But as we draw down to that 45-sub level, we really have no need to build new submarines until after the turn of the century. The reason we have chosen to invest in a new Seawolf over the next few years is to keep the industrial base active at a minimum level until we need to start buying again at a steady-state level.

Each case will be different. For tanks we can handle the industrial base issue through upgrades and foreign military sales. For submarines we will need a stretched-out buy. With airplanes we have enough procurement, and with the development programs for the F-22 and the new F/A-18 version, we can be confident that we will have suppliers out into the future.

DOING BUSINESS DIFFERENTLY

(Chart 11) Related to the need to increase procurement after '96 is the requirement to do business differently. In this budget there is not enough money in the outyears to increase the procurement accounts unless we cut our costs. That means acquisition reform is a real need and not just a good idea.

In addition, we need to reform our financial management. It is a mess, and it is costing us money we desperately need. Third, we need to continue to shed infrastructure. We urgently need the help of the Congress for all these activities.

All three efforts are designed to save money in the outyears, but none will save money immediately. There is no line in this budget for projected savings from acquisition reform. We will not credit those savings until we can precisely identify and verify them. To do the base closure process correctly and quickly requires significant funds, and better financial management requires investment in new systems.

Taking care of the environment is in a slightly different category, but there are parallels. We must spend heavily to clean up past mistakes, and this is money which is an increasing drain on regular military accounts. But we are also trying to prevent the need for expenditures of this sort in the outyears. It is important to note that there is an additional \$5 billion in the Department of Energy budget for clean-up.

(Chart 12) The last theme I want to stress in this budget is defense reinvestment, totaling a little over \$3 billion. Much of this money is being put into dual

use technology, where there is a clear benefit to Defense as well as a benefit to the commercial sector.

(Charts 13 & 14) The overall picture for Defense as a part Of the national economy and budget shows the dramatic shift in resources from Defense to the non-defense side of the economy. Defense outlays are now down to 3.7 percent of GDP and heading toward 2.8 percent in '99. Defense outlays are already down to 17 percent of the Federal budget. That represents a significant peace dividend for the American people.

(Chart 15) This is the topline showing what we are planning to spend for America's defense.

A STRATEGIC INVESTMENT PLAN

(Chart 16) In sum, the President's FY 1995 defense budget represents a strategic investment plan. It is a blueprint for getting us to where we want to go. It is based on a common understanding of strategy and what is needed to carry out that strategy derived from the Bottom-Up Review. The Bottom-Up Review provides clear goals for ensuring America's defense. The budget connects our strategy to force structure and costs. I believe that it fulfills the President's pledge to sustain the "best-equipped, best-trained, and best-prepared fighting force on the face of the earth."

Let me now turn to several subjects that I believe might be of special interest to this committee.

THE BOTTOM-UP REVIEW

(Chart 17) First, some additional comments on the Bottom-Up Review. This study was truly a milestone for America's national security. The BUR solidified a consensus within DoD on the potential risks to America's security, the defense strategy needed to protect and advance our interests, and the military capabilities required to carry out our strategy to counter those risks. It also produced an affordable plan for the continuing modernization of U.S. forces and for managing the industrial base to support a modern force. Finally, the Review achieved a consensus between DoD's civilian and military leaders on the most critical elements of a balanced program to achieve the needed U.S. security posture.

Perhaps the most important and controversial BUR conclusion was that the optimal U.S. force should be one sufficient to fight and win two nearly simultaneous major regional conflicts. This conclusion reflected a concern that if America were to be drawn into a war with one regional aggressor, another could be tempted to attack its neighbors—especially if it were convinced that the U.S. and its allies did not have enough military power to deal with more than one major conflict at a time. Moreover, sizing U.S. forces for more than one major regional conflict will provide a hedge against the possibility that a future adversary might one day mount a larger than expected threat. In sizing U.S. forces, we also committed ourselves to maintaining a strong overseas presence, which is essential to ensuring the vitality of our alliance relationships and maintaining stability in critical regions.

DEFENSE SPENDING AND TOTAL FEDERAL OUTLAYS

(Chart 18) I recognize that this committee must consider defense spending in the larger context of the federal budget, and that there are enormous pressures to reduce the deficit and preserve domestic programs that directly affect our people. In that regard, this chart depicts the defense portion of this larger picture. It illustrates that focusing on Defense as the major cure for the deficit is out of proportion to its share of federal outlays. Let me hasten to add, however, that the primary reason that President Clinton and our nation's defense leaders oppose cuts beyond those planned is that it would carry excess risk to our future security.

(Chart 19) This chart shows that during the 1990s defense outlays are coming down dramatically. Defense is contributing to deficit reduction far in excess of its share of the federal budget. Unfortunately, increases in other segments of the budget dwarf our decreases—hence our nation's political leaders must continue their fully justified concentration on deficit reduction. My message here is simply that preserving America's future security must be as strong a concern.

THE FYDP FUNDING SHORTFALL

(Chart 20) Finally I would like to explain the \$20 billion funding shortfall that has received quite a lot of attention.

The Bottom-Up Review was undertaken without a precise defense spending target in mind. When the BUR was completed, the Department found that the BUR program exceeded the President's spending levels by a total of \$13 billion over the FYDP period. Secretary Aspin committed to finding the remaining \$13 billion during the normal review for the FY 1995 budget and FYDP. Reductions were made to many programs to achieve this goal. However, two developments complicated the budget review.

First, Congress provided a pay raise for military and civilian federal employees, whereas the Administration had proposed a pay freeze in FY 1994. The consequence of the pay raise was to increase funding requirements over the FYDP period by over \$11 billion. This was a real bill that had to be paid because the pay raise was mandated in law.

Secondly, the rate of inflation in future years was projected to be higher than was estimated at the time the FY 1994 budget was developed. Because of this change, it was estimated that DoD would need about \$20 billion more to pay for the BUR program over the FYDP period. Unlike legally mandated pay raises, these inflation estimates are likely to change several times during the year, and may well result in inflation cost growth below the \$20 billion over five years now estimated.

President Clinton reviewed these factors in December. At that time he reaffirmed his commitment to the BUR program. He also directed OMB to increase the overall DoD budget over the 5-year period by \$11.4 billion to provide for the effects of the pay raise over the FYDP period. However, the President opted not to budget for the multi-year inflation bill, which may or may not come due.

In order to implement the President's directives, the Department took two actions. It incorporated the full cost implications of the pay raise provided in FY 1994, and it repriced the BUR consistent with current economic estimates. These actions resulted in a defense program that exceeds the President's defense budget levels in the FY 1996-1999 period by about \$20 billion. Options to deal with this matter will be considered in developing the FY 1996-2001 FYDP—when updated inflation projections will be available. The President and the Department of Defense remain firm in their commitment to the BUR and the need to properly finance it.

Individual DoD programs and activities, through which the BUR is being implemented, all have been properly priced based on current estimates of inflation. DoD leaders are confident that planned forces and capabilities can be purchased for the monies projected in the FYDP. The Department used realistic projections for future costs, procurement schedules, likely savings, and other planning issues.

FY 1995 BUDGET

- Implements the Bottom-Up Force Structure
- Protects a Ready-to-Fight Force
- Redirects Modernization Program
- Starts Doing Business Differently
- Reinvests Defense Dollars

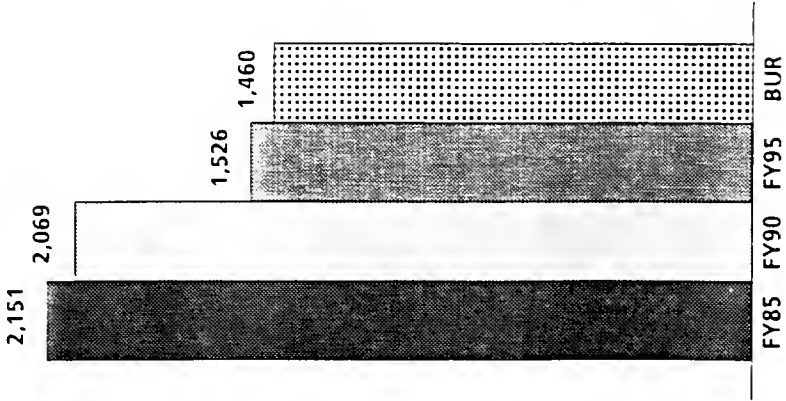
Force Structure

	<u>Cold War Base 1990</u>	<u>Base Force</u>	<u>1995</u>	<u>BUR PLAN</u>
Land Forces				
Army Active Divisions	18	12	12	10
Army Reserve Component Divisions	10	8	8	5 +
Marine Corps (3 Active /1Reserve)	4	4	4	4
Navy				
Ship Battle Forces	546	430	373	346
Aircraft Carriers				
Active	15	13	11	11
Reserve	1	-	1	1
Navy Carrier Wings				
Active	13	11	10	10
Reserve	2	2	1	1
Air Force				
Active Fighter Wings	24	15.3	13.0	13
Reserve Fighter Wings	12	11.3	7.5	7

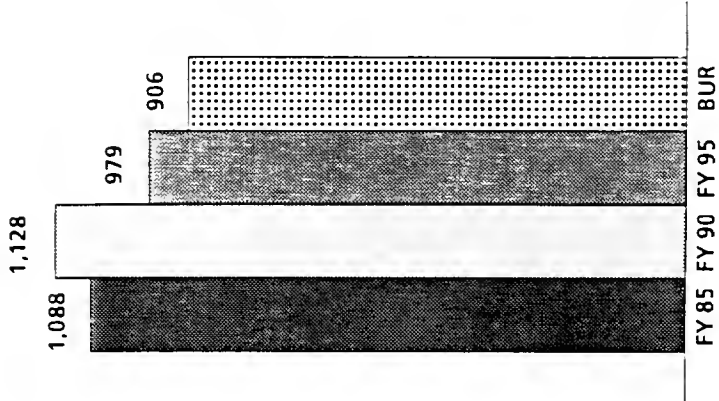
MANPOWER LEVELS

(End Strengths in thousands)

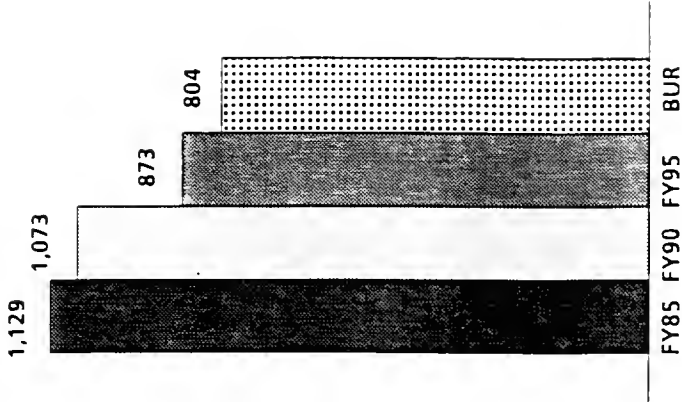
Active Military
Down 32 %



Selected Reserves
Down 20 %



Civilians
Down 29 %



DoD MANPOWER

Constant 95 \$ Billions

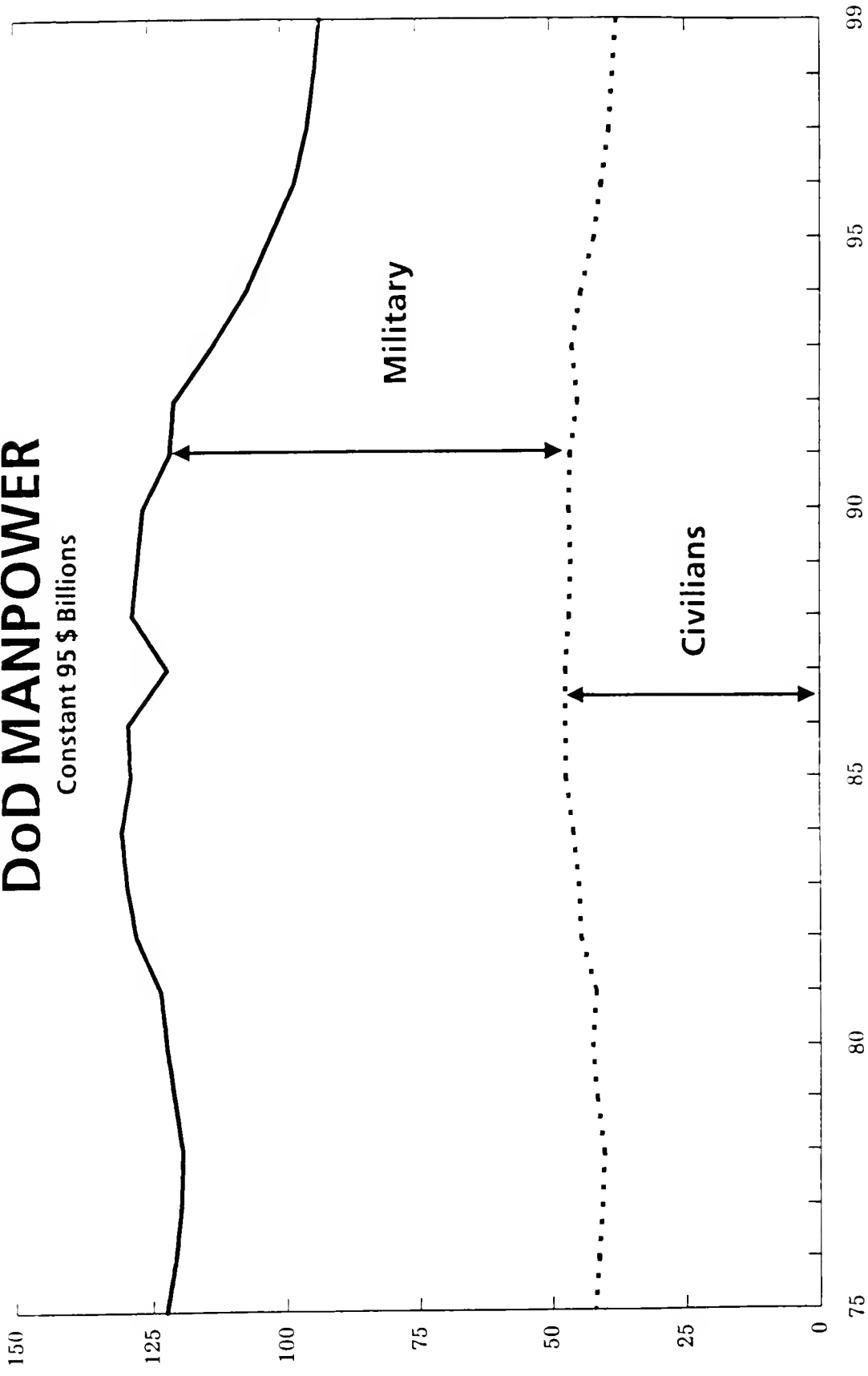


Chart #4

PRIORITY ON READINESS

- While Force Structure is Down 7%, O&M Funding Increases 5.6%
- Budget Fully Funds Service Optempo
- While Weapons Inventories Shrink, Depot Maintenance Funding Increases 20%
- Steady Budget Levels for Recruiting

ANNUAL OPERATING RESOURCES PER UNIT
(1993 = 100)

	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>
<u>Combat Battalions</u>			
● Army	100.0	102.5	114.0
<u>Ships</u>			
● Navy	100.0	108.1	110.7
<u>Primary Authorized Aircraft</u>			
● Air Force	100.0	109.3	111.7

OPERATION AND MAINTENANCE
Costs Per Military End Strength
(1993 = 100)

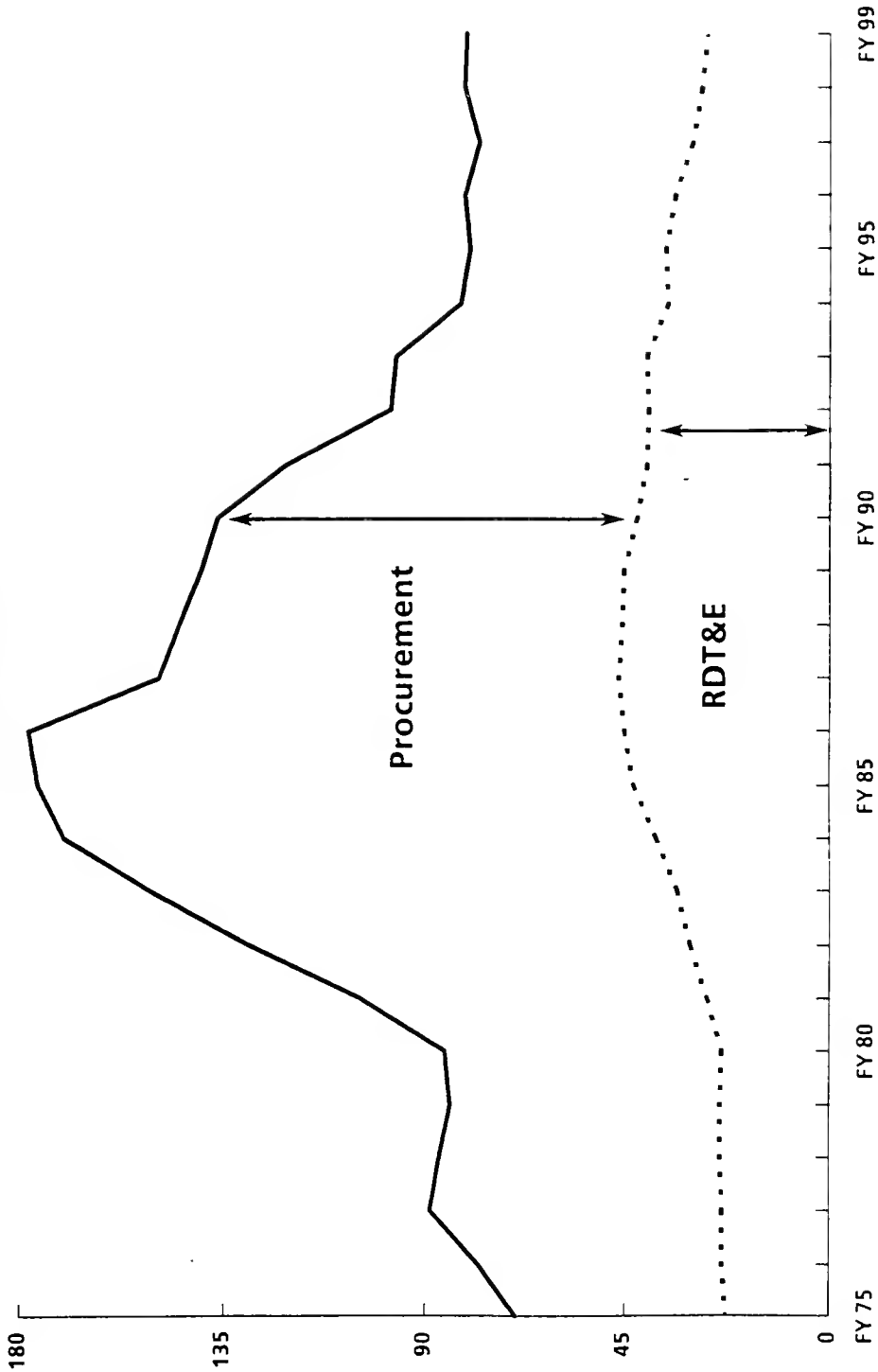
	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>
● Army	100.0	96.9	109.4
● Navy	100.0	104.5	109.1
● Air Force	100.0	107.3	117.1

BUR--ESSENTIAL MODERNIZATION PROGRAM SUSTAINED

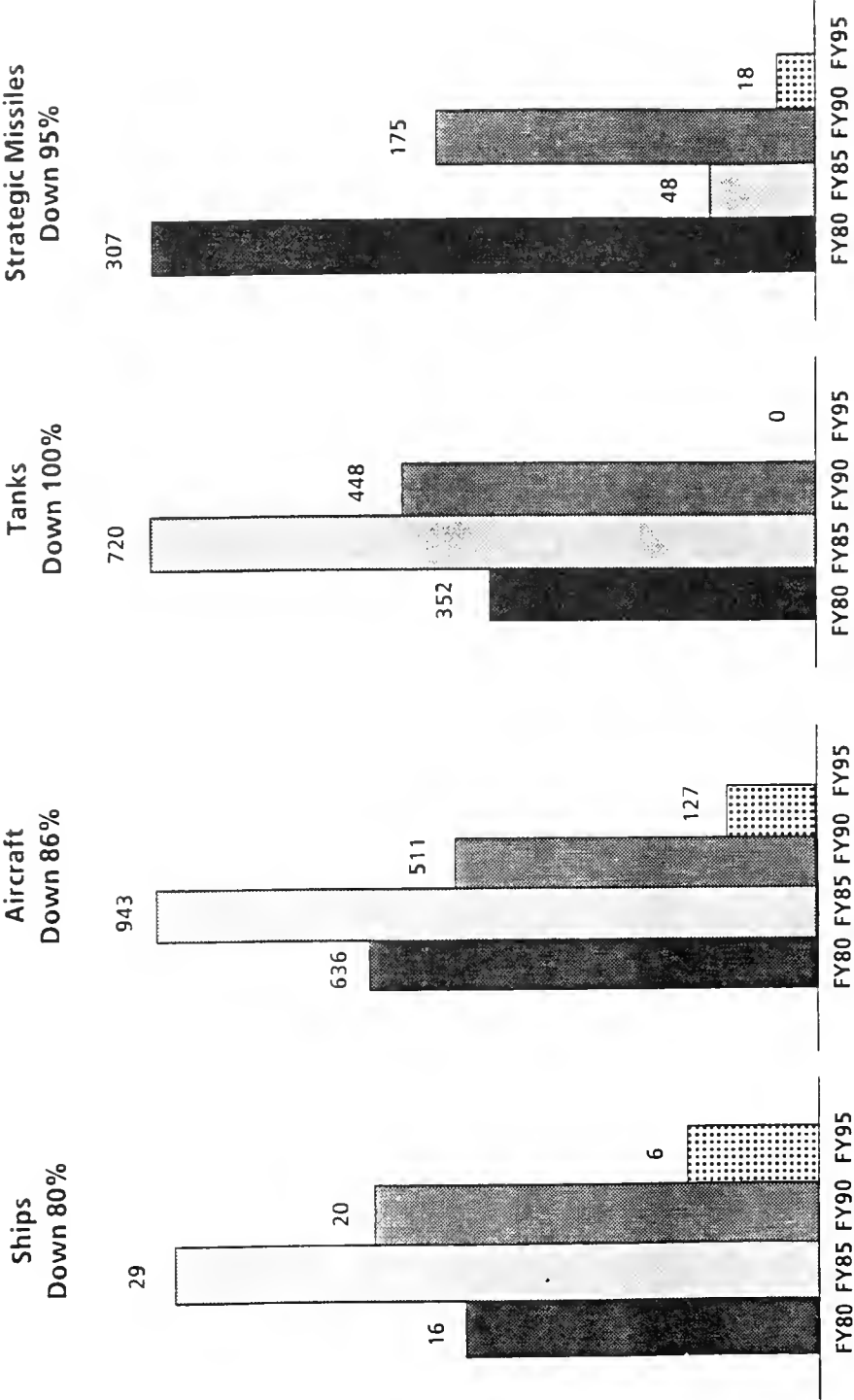
- Sustain Strong Science & Technology Base
- Continue Investment in Next Generation Weapon Systems
- Refocus Ballistic Missile Defense Program
- Sustain Strong Intelligence Program
- Preserve Key Elements of Industrial Base That Would Otherwise Disappear

MODERNIZATION FUNDING

Constant 95 \$ Billions



HISTORICAL PROCUREMENT DATA



DOING BUSINESS DIFFERENTLY

- Launches Campaign to Streamline Acquisition Process
- Launches Effort to Reform Financial Management System
- Provides Funding for Base Closures and Aid to Communities Losing Bases
- Provides \$5.7 Billion for Environmental Restoration and Pollution Prevention

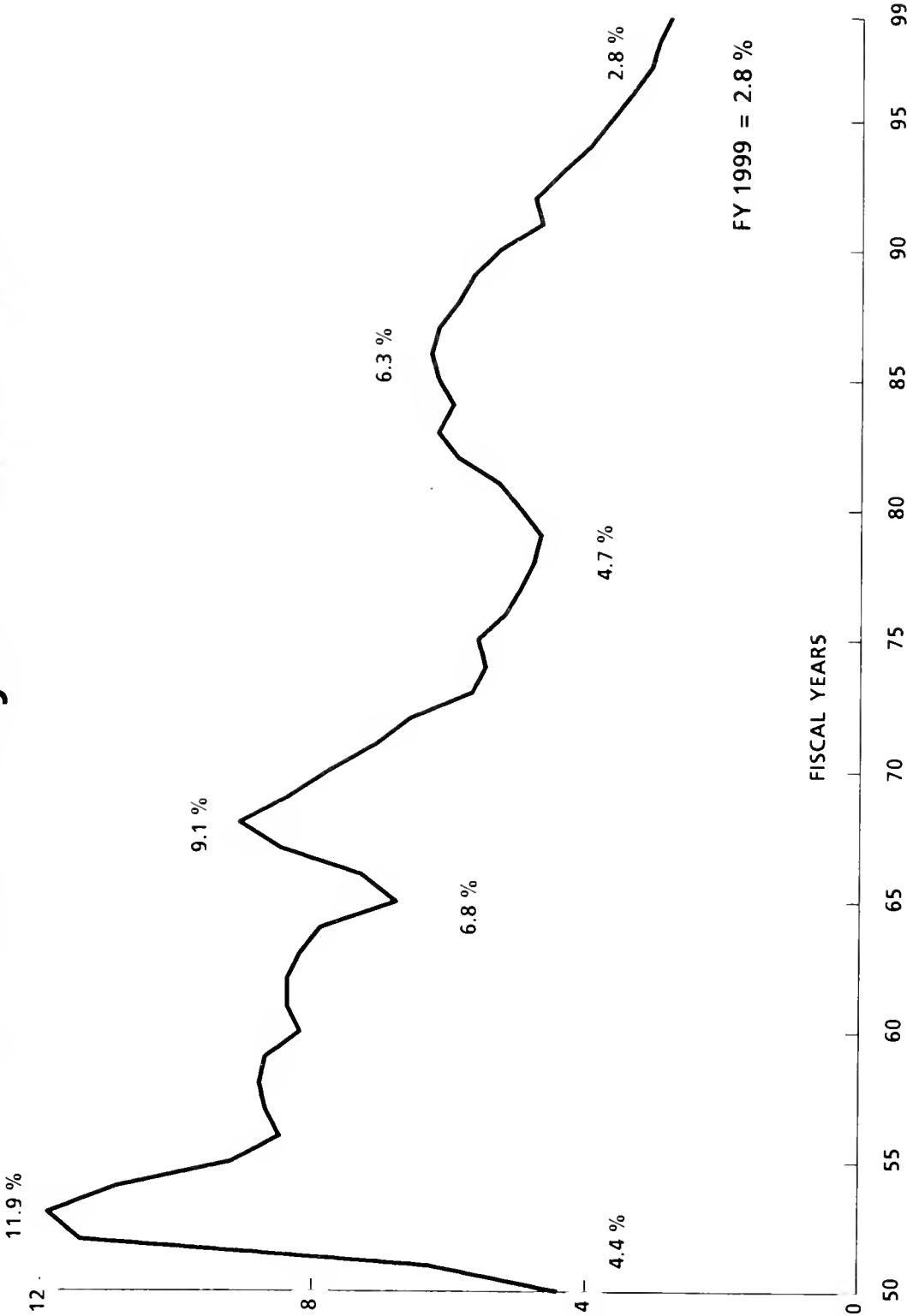
DEFENSE REINVESTMENT AND ECONOMIC GROWTH INITIATIVES

(\$ in Billions)

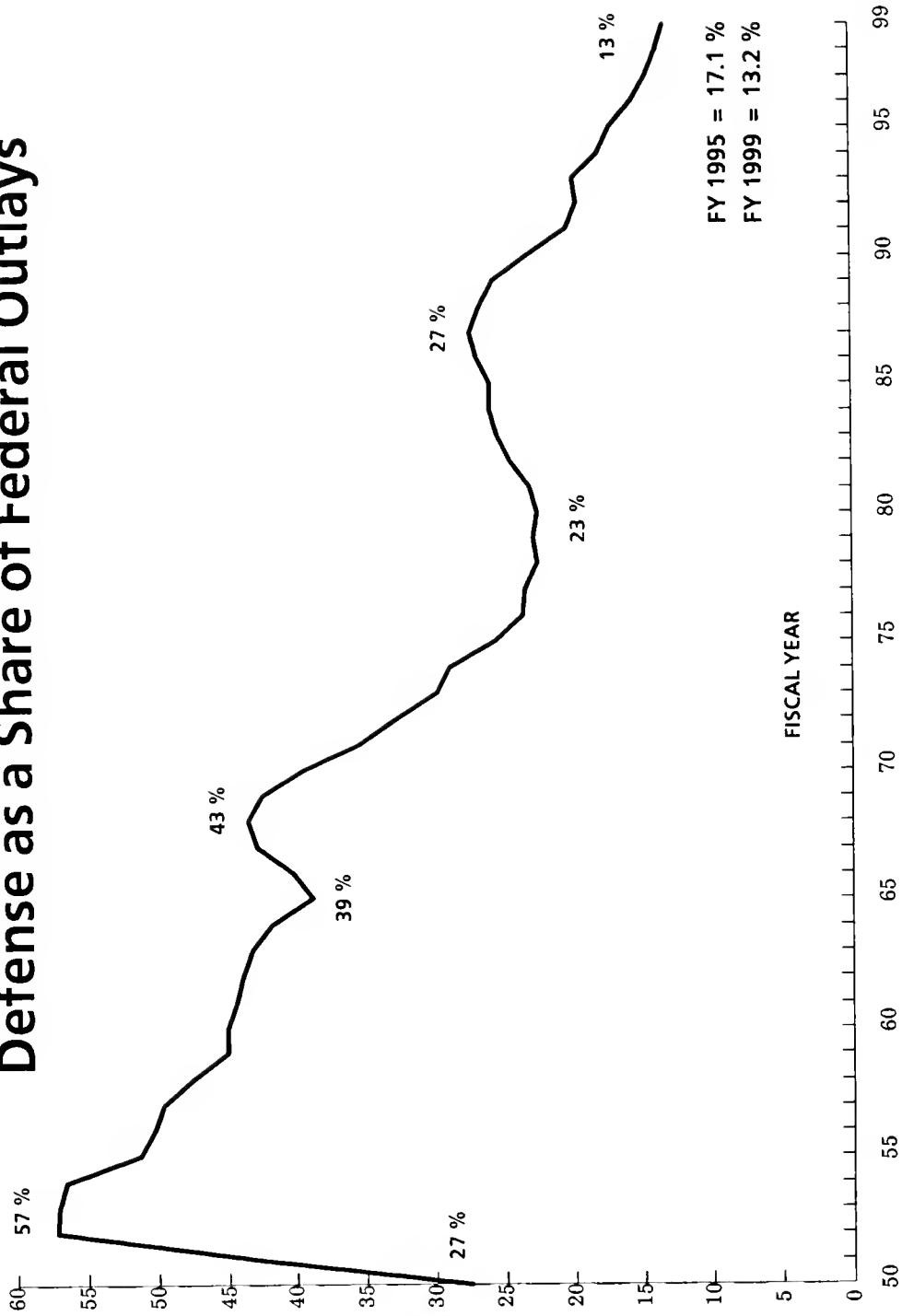
	<u>FY 1995</u>
Dual Use Technology Investment	2.1
Personnel Transition Assistance	1.0
Community Assistance	<u>0.2</u>
Total DoD Programs	3.3

Defense Outlays as a Share of GDP

Chart #13



Defense as a Share of Federal Outlays



NATIONAL DEFENSE TOPLINE
(Current \$ Billions)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
<u>BUDGET AUTHORITY</u>						
DoD Military	249.0	252.2	243.4	240.2	246.7	253.0
DoE & Other	11.9	11.5	11.9	11.8	12.0	12.1
Total National Defense	260.9	263.7	255.3	252.0	258.7	265.1
% Real Change	-9.0	-0.9	-5.9	-4.0	-0.2	-0.3
<u>OUTLAYS</u>						
DoD Military	267.4	259.2	249.1	244.6	244.7	245.5
DoE & Other	12.5	11.5	11.9	11.8	11.9	12.0
Total National Defense	279.8	270.7	261.0	256.4	256.6	257.5
% Real Change	-6.0	-5.2	-6.4	-4.5	-2.7	-2.4

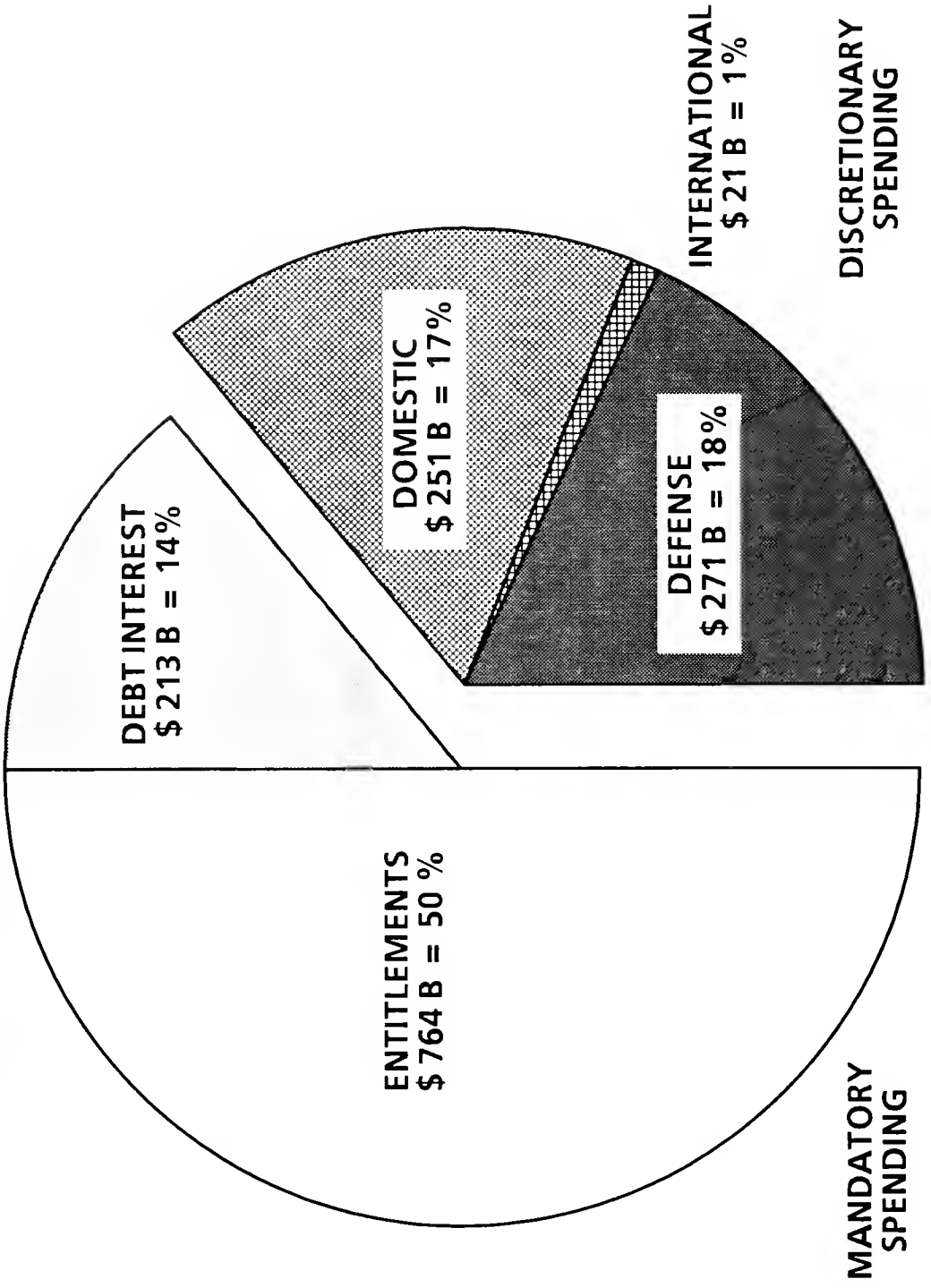
FINAL POINT

- Budget is a Strategic Investment Plan
- Based on Common Understanding of Strategic Needs
- Connects Strategy, Force Structure and Costs

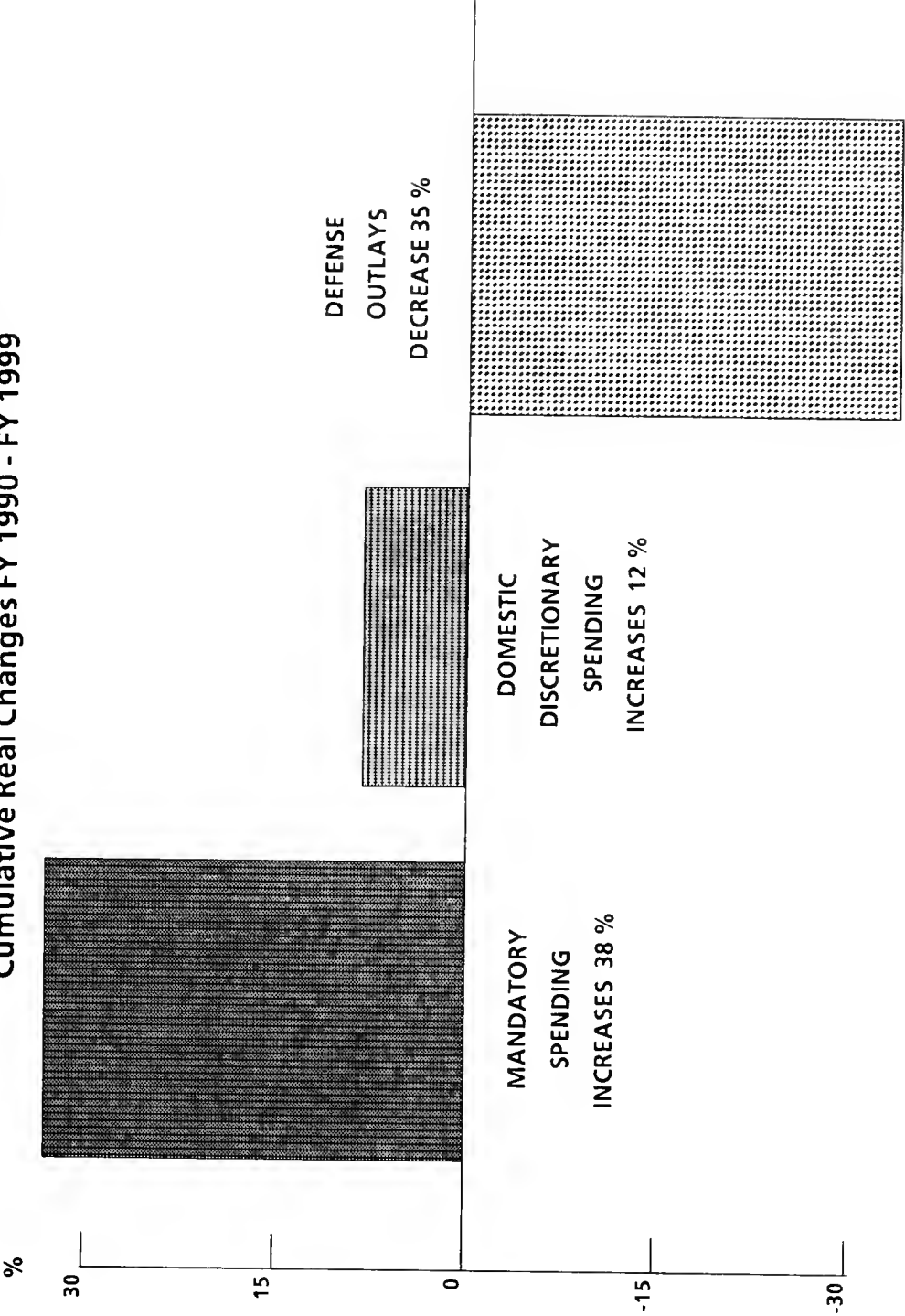
BUR CREATED CONSENSUS IN NATIONAL DEFENSE

- Consensus on risks and military capabilities
- Consensus on modernization and protection of the Industrial Base
- Consensus between civilians and military on balance in defense program

1995 FEDERAL OUTLAYS = \$ 1.52 Trillion



DOMESTIC DISCRETIONARY, DEFENSE AND MANDATORY OUTLAYS
Cumulative Real Changes FY 1990 - FY 1999



DoD FYDP VS TOPLINE
(Current \$ Billions)

<u>Budget Authority</u>	<u>FY 1995</u>	<u>Cumulative FY 1996-FY 1999</u>
FYDP	252.2	1,003.4
Topline	252.2	983.3
Funding Difference	-	20.1

Chairman SABO. Thank you very much, Mr. Secretary.

One question that constantly emerges in our discussion of defense funding is——

Secretary PERRY. Excuse me, Mr. Chairman. May I have Mr. Hamre join me for this discussion? He may amplify my knowledge on some of the questions you ask.

Chairman SABO. Thank you, and welcome to the committee.

Mr. HAMRE. Thank you, sir.

Chairman SABO. One concern that generally emerges in all our discussions of defense funding on this committee—and some of the most avid advocates of this position are not here today, so I will try and state their question—it is a question of our relationship particularly to Europe, and our basing of troops in Europe.

Historically, a significant part of the defense budget was viewed as being there for the defense of Europe, in the conflict with the Soviet Union. And the argument is that that has changed significantly, and that is not reflected in the changes in funding for DOD.

And it also relates to the question of burden sharing as it effects the actual cost of deployment of troops to Europe, where clearly the relationship between our NATO allies and ourselves in terms of funding is different than it is between ourselves and the Far East, with Japan, and in Korea, where they pay a significantly larger share of the cost of our deployment of troops there.

I would like your response to that question. They would state it more emphatically than I have.

Secretary PERRY. I would start off with the fundamental observation that two times in this century, against our desire and against our intentions, we have gotten involved in very bloody wars in Europe, and we would like not to go for a record of three. Whether we acknowledge them or not, we have very fundamental national interests in peace and security in Europe.

I start off from that proposition. And then I observe that maintaining those interests during the cold war required us to prepare for what we assumed could be a blitzkrieg attack on Europe by the forces of the Warsaw Pact. We had very large, well-equipped, and highly ready forces in Europe for that purpose. We had over 300,000 troops in Europe for that purpose.

With the dissolution of the Warsaw Pact and then the Soviet Union, that threat no longer was a realistic one. So we did not need to maintain over 300,000 troops. We are in the process of drawing those down very rapidly.

This is the quickest part of the personnel drawdown. We have gone all the way down from 300,000 to 100,000. We believe 100,000 represents the proper number to reflect the current threat and our current interests in Europe.

Now, we have drawn on these forces in various ways, in conjunction with our NATO allies, sometimes in coalitions and sometimes under NATO mandate. The two most recent times were during Desert Storm, when we sent parts of the core of our forces in Europe down for Desert Storm, and we did that along with a coalition of nations which included some of our NATO allies, but not under a NATO command and control, NATO mandate.

Most recently in Bosnia we are operating with NATO in an air operation which denies the use of aerial bombardment in the

Bosnian war, and which is protecting the U.N. forces on the ground through air cover, and which is threatening to launch air strikes to stop artillery bombardment. All of that is a NATO operation, run by the U.S. Commander Allied Forces Southern Europe, Admiral Boorda, and we see that as prototypical of the kind of problems and issues which will arise in Europe.

Now that the Warsaw Pact is broken up and we have many Eastern European and Central European nations struggling to become democratic, to get a free market system, they are really having a hard struggle ahead of them. Yugoslavia probably represented the worst of these cases—we hope it was the worst of these cases—but we do not believe we are relieved of security problems and security pressures in Europe for the foreseeable future.

So in sum, then, I would say we have, I believe, a very strong interest in peace and security in Europe. We can attend to these interests through many means, diplomatic, certainly, political, but part of that is the military force we have projected there, and our judgment is that 100,000 is sufficient to attend to that instead of the 300,000 we had during the cold war.

Chairman SABO. If we are in fact there to help maintain the stability of Europe, why should we not expect them to pay more for the maintenance of those troops in Europe?

I would be curious what your analysis would be that the extra cost is of deploying those troops in Europe rather than having them based in the United States.

Secretary PERRY. Let me answer qualitatively and ask Mr. Hamre to comment quantitatively.

We are there fundamentally in our national self-interest, not in doing a favor to European nations, and the decisions we make should be made on that basis. The extent to which we get support from European nations to do that, as you know, has been a matter of long and intensive negotiations, both individually with these nations and collectively through NATO through the years.

I will let Mr. Hamre give you the summary of what that has resulted in quantitatively.

Mr. HAMRE. Sir, there has been lots of debate frequently up here on the Hill about what we spend for peacekeeping in Europe and how much we devote to it. Large numbers are frequently cited, as much as \$100 billion. Those frequently are references to the fact that we have an Army of 12 divisions and an Air Force of 26 wings, and the fact that we kept four divisions in Europe in the past, or five wings in Europe, were somehow viewed separately. We kept them because we needed that size military.

At the height of the cold war, the cost was a little more than \$3 billion over their costs had they been in the United States. Of course, we have shrunk that dramatically. We now only have two divisions left in Europe.

So it is a very small bill by comparison to the frequent debate you see in the public that it is in the tens and hundreds of billions of dollars. It is really not. The incremental cost is quite small. I will get more precise numbers for our current estimate. I am sorry I don't have that in my mind right now.

[The information follows:]

On average, it cost up to 15 to 20 percent more to station forces in Europe rather than the United States. This differential is based on a comparison of total operating costs, including equipment operating tempo, military personnel pay and allowances including fringe benefits and permanent change of station (PCS), base support, real property maintenance, family housing and medical support.

The comparison is based on a generic military unit, with identical equipment, fully manned and equipped, maintained at equal levels of readiness, permanently stationed in either Europe or the United States. The costs for the U.S. based unit do not include the additional incremental costs to temporarily deploy to/from Europe in the event of an emergency. The costs for the European based unit do not include the additional incremental costs to re-station the unit in CONUS.

Chairman SABO. Thank you.

Mr. Kasich.

Mr. KASICH. Let me see if I can help you on that issue a little. I have been involved in burden sharing for a number of years, and I was involved in the only bill that passed in the House and Senate to force burden sharing.

The simple fact of the matter is, if you take all the O&M costs for U.S. forces around the world, it totals \$13 billion. That is all we are paying, \$13 billion. I think we should make a push to get those numbers down even more. We should follow, believe it or not, the Japanese model, where they are paying almost all of our O&M costs. It is Europe that is not paying.

I have been for burden sharing, but the only way to do this is to have other countries pay for our troops. Once you get into the issue of other countries paying for our troops, we are now in a whole other discussion here about whether we are going to have soldiers of fortune in our armed forces. But \$13 billion is for forces worldwide, and you can't expect our allies to pick up every dime of cost.

I maintain that we in fact have made progress in the area of burden sharing, but I think it would be very helpful for you to get the numbers together and get them up here. But what we need to do with the rest of the world is get them on the Japanese model and stop letting these people kick us out of their country and force us to pay these goofy settlements. They throw us out and we give them severance pay. That ought to be stopped.

Mr. Secretary, the headline today ought to read—and I really want to compliment you for your candor—the headline ought to read, "The Department of Defense can no longer guarantee that the readiness of U.S. forces will be maintained at current levels, that readiness will in fact drop."

Let me just give you an example. In fiscal year 1995, you say you are going to protect readiness through a \$5 billion increase to the O&M budget. Of that amount, \$1.2 billion is allotted to depot maintenance. This is boring stuff, but this is what gets down to whether tanks roll and planes fly. But what you do is jack up the rates the services pay to the DBOF account to \$1.5 billion.

So in other words, it is a complete smoke and mirrors. You are not increasing it anywhere near \$5 billion. When you calculate these noncore areas, the readiness accounts are really being damaged. And I thought readiness accounts have been fat for a number of years and I have still not sure where we are today, but when we argue we are going to increase it by \$5 billion and we use these gimmicks, which you are probably not even aware of, that shows you how the readiness factors are not being properly measured.

But what I really want to get into today are these numbers. I know you have done the Bottom-Up Review which still puts you \$20 billion short. The number is kind of out there, and then it went away—\$20 billion. That is probably \$50 billion when you really get down to it, because that couldn't calculate any inflation factors. But let's just look at the 28.5 to 37.1 and the 45.8.

My question to you is, are we going to kill the Seawolf? Are we going to kill the C-17? Are we going to kill the F-22? What weapons systems are on the chopping block?

Let me tell you what my fear is. Everybody is for cutting defense. Try to cut the submarine in Connecticut. See what the reaction is going to be. In other words, you put these programs on the chopping block, I am not convinced they are going to be chopped.

Which ones are you going to kill in order to get us these kinds of numbers and when are we going to start?

Secretary PERRY. Mr. Kasich, this budget funds all three of the programs you mentioned, and that is spelled out through the FYDP. The cuts came, as I indicated in my earlier presentation, in cuts in force structure, in cuts in quantities of equipment we were buying, and in modernization, not in the development of new systems. They are very substantial cuts in terms of quantities of equipment.

For example, there are no tanks at all in the fiscal year 1995 budget. That is where the cuts came from.

Mr. KASICH. I am talking about the out years, Mr. Secretary. How are you going to get 28.5 and 37.1? Are you going to kill these major weapons systems or are you not?

Secretary PERRY. No, we are not.

Mr. KASICH. How are you going to get there?

Secretary PERRY. The FYDP we presented to you lays that out in considerable detail. It envisions doing all of these programs. It envisions having further force structure reductions into the out-years. It envisions cutting down the modernization budget into the out-years.

Mr. KASICH. The modernization budget funds new weapons systems, follow-on systems. We are almost at the force structure levels right now that you say we need to get to. I mean, you have to kill systems. You say it in your bottoms-up review, that there are weapons systems that have to be red lighted. But you talk about them in very broad terms.

Which systems are going to be taken to the slaughterhouse?

Secretary PERRY. This budget is very specific in spelling out which we are going to do and which we are not going to do. This FYDP we are presenting to you is very specific in what we are going to do, and we are going to maintain all three of the programs you describe.

Mr. HAMRE. Mr. Kasich, may I speak to this?

I think the Department would love to have a current services budget line to carry us through 5 years, because that means we are fully protected for inflation. But we do not have a current services program. The cold war did end for the Department, so we don't need to maintain the 12 divisions through that period, we don't have to maintain the force structure that is embedded in the current services estimate.

The dollars that are being reduced, and we have been cutting deeply, and I think Dr. Perry mentioned the FYDP, that we will be submitting the details of the FYDP; it is going forward now to the Secretary and it will be released shortly. We will hit the numbers that are in the Clinton target with concrete, real cuts throughout the period.

There are not going to be additional cuts required to hit those numbers in the out years. We have accommodated it. But I think we would love to have a current services line, but we have never been given a current services line in the last 8 years in the Congress.

Mr. KASICH. You say in your own testimony, we cannot sustain these low levels of procurement for long and we are projecting an increase beginning after 1995 when it goes up 20 percent between 1996 and 1999. Something has got to be—in other words, you believe that we know every detail of every system that is going to be eliminated. There will not be—you are not going to come up next year and say, By the way, this system has to be killed and we didn't get specific about it but now we are being specific about it. There are no surprises yet to come?

Secretary PERRY. Let me answer that. First of all, we cannot say today we may not be coming to the Congress a year from now, 2 years from now, and saying a system we had planned to build we have now changed our mind. That would be for programmatic reasons, not for overall budget reasons. Often in the past we ran into substantial problems on programs, and altered the program for that reason. That is the first point.

The second point, the budget we are working on here is subject to economic fluctuations. It is based on assumptions of inflation. If those inflation assumptions vary dramatically in a negative direction, we would have much less money available for programs and we would have to come back with either more funds or fewer programs.

Mr. KASICH. I have got a letter I have got to get off to you. The Wall Street Journal reported, I believe it was last Friday, that the No. 2 over at the Air Force is suggesting that we have a number of weapons sales to people around the world in order to raise cash to help finance our procurement accounts.

I am opposed to this notion, at least the way it has been presented so far, the fact that we ought to be increasing the amount of weapons sales that we make around the world. I know there aren't many people that share that view, because you don't find a lot of sympathy for the fact that we shouldn't have these weapons sales.

Can you give us any details on whether you intend to go forward with that, whether you will seek congressional approval for this approach? I know you were quoted in the paper as saying that General Carns, I believe was the general, that his idea of upping the amount of weapons sales is a good one because it will allow to us build things here from the cash that we would get from these sales.

Do you intend to go forward with that? Are you going to come to us first? Where does that now rest?

Secretary PERRY. A consequence of doing that would be it would allow us to do that. Whether it is good or bad depends on the national security considerations of those sales.

I am firmly opposed to selling weapons overseas, certainly for economic reasons. I think the determining factor has to be whether the sale of weapons meets our national security requirements. If it does, then we can consider the next step.

Mr. KASICH. So you would not agree with Carns? Carns didn't argue it from a geopolitical point of view. He said, We should sell these things, we can then take the inventory and use the money to build weapons systems for ourselves.

Secretary PERRY. I would be in favor of doing that only in cases where we first made a national security judgment that the sale of the weapon was in our national security interest.

Mr. KASICH. I will get you the letter.

Thank you, Mr. Chairman.

Mr. PRICE [presiding]. Thank you.

Mr. Berman?

Mr. BERMAN. Thank you, Mr. Chairman.

I want to point out I was very interested once again in Mr. Kasich's charts, especially that first one which showed that dramatic decline in defense spending as a percentage of gross domestic product. And I wonder why he didn't have a chart that showed the budget deficit decline as a percentage of gross domestic product. It is an interesting evaluative tool, but it should be applied to lots of different areas.

Mr. KASICH. Will the gentleman yield on that?

These are supposedly real cuts. I maintain they won't be made. In terms of where the budget deficit is going to be, it is based on your economic applications, which vary. We were told we wouldn't see higher interest rates, and now we are seeing the bond market deliver some things that are not very good for the economy. So where your deficits are going to be and where the economy is going to go is purely your guess versus my guess. These are the real deal numbers, hard-core numbers that you have as far as the plan.

Mr. BERMAN. I don't totally accept that as a distinction, since gross domestic product is based on economic assumptions. Your chart shows defense spending as a percentage of gross domestic product.

Moving on—

Mr. KASICH. Good point.

Mr. BERMAN. Mr. Secretary, welcome. It is sometimes a custom here for people who don't get a chance to see you in the normal course of their committee work, because they are not on the right committees, to ask questions that might deviate a little bit from direct budget questions. I would like to take the opportunity to do that here. I would like to follow up on Mr. Kasich's question.

In May of 1993 you pointed out, in what I thought was an excellent statement, that "foreign military sales offer a very faint hope as a way of maintaining a U.S. defense industrial base, and that U.S. defense companies should instead look to defense conversion to maintain their long-term strength." You referred to that defense conversion process as a slow and difficult one, but you noted that

it was a better hope for companies than chasing what you regarded as the "false solution" of foreign military sales.

The Wall Street Journal article recently indicates that now you are favoring a Pentagon strategy which would sell overseas a large part of the military's cold war store of high-performance weaponry. I don't know how you are justifying this strategy. Maybe you think it is justified on industrial base grounds or maybe you think it justified based on the revenue it will raise.

But I am concerned that, as you evaluate the national security consequences of any transfer of weapons, how you can calculate the extent to which our government is undercut in its ability to develop multilateral conventional arms restraint, or undercut by our own conduct in selling arms. It is very tough, for example, when the Chinese come back with what we are doing in certain areas.

I am just wondering how all of this squares with those comments you made back in May.

Secretary PERRY. There are three different points to be made, and the points are being mixed up in the various quotes. The first point is that, I said then and I say today, foreign sales are a faint hope for the defense industry. The economics don't support the belief that that is going to recover from the size of the cuts which I showed you in the defense procurement budget. Therefore, the defense industry, and I was talking to them at the time, need to get on with two things: not only defense conversion, but also drawing down the size of their overhead structure.

That was my recommendation to defense industry executives, and it was based on that judgment. It was simply a judgment of the feasibility of being able to depend on it.

The second point is the desirability of the overseas sales. The dominant test of whether we should be selling weapons overseas has to be a national security test. And I repeat that point, not an economic test.

And finally, the question on the General Carns proposal really didn't have to do with whether you sell more or less weapons. It was a mechanism for selling weapons. It was saying, "if you decide you are going to sell them, should we allow industry to build new weapons and sell them, or should we take them out of the Air Force inventory and sell them?" That was General Carns proposal.

As I see that issue, it is independent on the first two points I made, and it doesn't comment one way or the other on them.

Mr. BERMAN. I guess it is better to sell them secondhand if we are going to sell them, sell secondhand stuff. But I can see opposition to that coming from some of the same defense contractors.

Secretary PERRY. The defense industry is very much opposed to that, as you can imagine.

Mr. KASICH. Will the gentleman yield on that point?

Mr. Berman, I don't have The Wall Street Journal article here, but this was not presented as a way to sell to our allies. The interpretation I had was of a guy rubbing his hands together saying, Oh, boy, we can put a mechanism in to ship all this stuff overseas and bring more money in and then we can build more over here.

Secretary PERRY. To the extent that was the proposal that would be made, I would be categorically opposed to it. Is that a straight enough statement?

Mr. BERMAN. Let me ask you one other question, about your view of the role of export controls. You have been quoted on the side of a skeptic on the efficacy of export controls in achieving what I am sure you would agree would be laudable goals.

Secretary PERRY. Commercial products, not weapons. I want to draw a sharp distinction. There I have always been in favor of strict controls.

Mr. BERMAN. What about products that have military applications as well as commercial applications?

Secretary PERRY. In commercial products, so-called dual-use products that could be used, that includes almost every electronic product you can imagine. It includes computers; it includes radios. On those, my position is that if they are available on the worldwide markets, that the United States manufacturers should not be precluded from selling them on those markets. That is the test that ought to be made: worldwide availability. The specific change which I supported in the so-called COCOM control on computers was to allow—

Mr. BERMAN. Foreign availability?

Secretary PERRY. Foreign availability. It was based on foreign availability, and said we should increase the limit on our controls so that computers which you could buy and take home and put on your desk and use as a home computer were not included.

The latest Intel chip in the latest computer which you can go out and buy today in the market is covered by that category.

Mr. BERMAN. I don't think there is any argument with the notion that items which are readily available in the same quality and in the same quantity from a number of different sources, present a harder problem. This is not to say, however, that export controls have not played an important role in impeding the development of independent missile capabilities and nuclear capabilities. I believe they have slowed down in some cases a country's ability to do that.

In the case of Brazil and Argentina, I think they may very well have allowed enough time to pass so that democracies took hold and their desire to develop these kinds of weapons systems was eliminated simply because of the existence of a control regime.

Secretary PERRY. I strongly support controlling technologies which play a very specific role in the development of weapons of mass destruction, such as nuclear, chemical weapons, biological weapons, or very advanced conventional weapons such as missiles. I support strongly the missile technology control regime, which is a coalition of producers who try to deny that technology from being sent to other countries.

So what I am in favor of is removing the controls on products for which foreign availability is—and I think we should be vigorously doing that, because we cause our companies, computer companies, our radio companies, enormous overhead expenses in delays in the market to try to comply with these regulations.

The government ought to take that expense, the people we have working on that and putting it to the real problems, preventing the proliferation of weapons of mass destruction. I think I have been badly misquoted or badly misinterpreted on that subject, and I welcome the opportunity to correct that record.

Mr. BERMAN. Thank you.

Chairman SABO. Mr. Shays?

Mr. SHAYS. Thank you.

Mr. Secretary, Dr. Hamre, I listened to your response to Mr. Kasich on the whole issue of how you reach these cuts, and I just found them very confusing, and it is just maybe my lack of knowledge in this area.

Mr. Hamre, we are not talking about a current service budget. We are talking about an absolute decrease in defense spending. Let me say to you, I don't know how we reach deficit target numbers unless we do this.

So I am not disputing the fact that we have to do it. My dispute with the Defense Department is, we are not making the hard choices today that we have to make in order to get that number. To say that we are going to be able to make the 1995 budget when we only have to cut it 1.9 billion is a meaningless statement to me.

What concerns me is, how do make 16.5 billion, 28.5 in 1997, 37.1 in 1998, and 45.8 in 1999? My point is, we are not just talking about maintaining current service. We are talking about a real decline in defense spending, an absolute decline, not a relative decline.

We are not talking about allowing the defense budget to go up, but not as fast as inflation. We are having to make real, absolute cuts in defense. How do you make a \$45 billion cut in 1999 unless you make some real decisions today on systems?

Secretary PERRY. We have made the decisions. Let me just give you one example, the simplest one to understand is the force structure. Even though the force structure drawdown will be done by fiscal year 1997, the cost savings from that will go on and accumulate beyond that period. And indeed, the first year or 2 we have a drawdown, there are actually expenses involved with the drawdown. So that is just one illustration. We have also made the decisions on the programmatic issues which are reflected in that modernization chart I showed you.

Mr. SHAYS. I understand my colleague is talking about the current services. This is the current service budget on top. I don't know how you are going to do it unless you make some real cuts in defense today.

Mr. HAMRE. As I think Dr. Perry said, the Bottom-Up Review cut out in real program content \$91 billion. This is by cutting back on infrastructure, shutting down bases, cutting out aircraft—

Mr. SHAYS. I don't think you are going to reach those programs unless you cut programs. I put everything on the table. I even put the Seawolf. I made the argument, whatever it takes to keep the industrial base is an important decision in this process. But I would put all of it on the table.

My fear is, like we did with the B-2 bomber, we are going to cut it out, but 5 years later, like we did with the superconducting supercollider, eventually cut it out, but cut it out too late.

Mr. HAMRE. There are requests in this year that saved \$3.9 billion this year alone. There are 57 program terminations altogether in this budget that we are submitting to you. We are really addressing those with real cuts, sir.

Mr. SHAYS. I still don't see how it happens. I see \$1.9 billion in 1995 but then the numbers start to jump almost geometrically.

The issue on burden sharing, just to finish my line of questioning, I don't pretend to be able to have historic perspective that some would have about World War I and World War II, but what I do know is the Europeans are getting a free ride, and we don't allow the Japanese to get away with it, but we allow the Europeans. The Japanese contribute in hard cash in 1993, \$2.5 billion. And that was for a troop level of less than 40,000. And they were paying two-thirds of the nonsalaried costs.

I am not talking about mercenary troops. I want the Europeans to pay two-thirds of the nonsalaried costs. They paid a grand and striking total of \$300 million. We told the Japanese they have got to do 2.5. And we have over 100,000 troops who will have that number.

Why shouldn't the Europeans pay up to, it seems to me, far in addition of \$2.5 billion? We should be getting from them 3 or 4, if they think there is value to them, and if they don't think there is value, why do we keep our troops there?

Secretary PERRY. The first issue, and I want to repeat again that the reason the numbers on that chart accumulate is because most of the choices we have made do not involve savings the first year or the second year. Some of them indeed involve expenses. When we close a base, it costs us money for the first 3 years. The savings don't come until the out years.

When we reduce personnel, we have incentive programs for people, just like industry. It costs us money the first year or 2. Those savings don't come until the end. When we reduce infrastructure, all of those things are costing in the early years, and therefore the big savings comes in the out years.

This budget is not a wish list or a hope list or a fantasy. It describes the choices we have already made, the decisions we have already made, and an objective calculation of what the effects will be in the out-years. That is the major point I want to make, because I think that is misunderstood.

Mr. SHAYS. Is it your testimony therefore you are not going to be cutting out any additional programs in the next 4 years?

Secretary PERRY. No, it is not my testimony.

Mr. SHAYS. Why won't you make those decisions today?

Secretary PERRY. I will make that decision if something happens to the program—if there is a programmatic failure. When we start a program, we never commit to finish it. We commit to finish it if it is executed well. Sometimes we have stopped programs for faulty execution.

But it is my testimony that for the three programs described here, the funding is in this program to accommodate those. The major qualification I will make on that, which you have not addressed yet, is that if we have major changes in inflation, and our top line does not reflect these, if there is an increase in inflation and the top line is held the same, then we will have fewer real dollars to effect programs. That is the issue. That is the thing that could change the programmatic description we have made to you today.

That is why when we get inflation changes, we argue for an increase in the top line to accommodate them, because our planning

is done on programmatic calculations based on real dollars, not based on hypothetical inflated dollars.

Chairman SABO. Mr. Mollohan?

Mr. MOLLOHAN. Thank you, Mr. Chairman.

Mr. Secretary, Secretary Aspin I believe last year announced the plan to reduce and restructure the Army National Guard and the Reserves, and I believe you are working on an implementation plan.

Secretary PERRY. Yes, we are.

Mr. MOLLOHAN. Would you be kind enough to give us a status report on that plan, and when will we know what changes are going to be in store in our various States?

Secretary PERRY. It is a complex plan. I would be happy to send you a detailed description of that. But we expect to be announcing that on February 28, so it is just a few days away. We will have a formal announcement laying out all the details of that.

[The information follows:]

The Army Active Component/Reserve Component (AC/RC) Leader's Offsite agreement has realigned the roles and missions of the Army's reserve components. This agreement, which was signed by all of the participants, will allow each reserve component to build along its core competencies. The agreement includes consolidating the combat mission requirement in the National Guard and the combat service support requirement in the Army reserve. Both the National Guard and the Army Reserve have agreed to "swap" a portion of their mission requirements in order to meet this goal. The exchange will affect approximately 10,000 force structure spaces in each component. Another aspect of the agreement is the transfer of 4,800 aviation force structure spaces from the Army Reserve to the National Guard. The National Guard will also retain approximately 7,800 of Combat Engineer and Military Police units that were previously scheduled to inactivate. This agreement will be accomplished within the 575,000 end strength limit for the reserve components in 1999. The specific details regarding units, costs, and the time table for this agreement are still being worked by the Department of the Army. The details should be ready for release later this Spring.

The overall reduction of the active and reserve components is a continuing process. The FY 1994 Reserve Component Inactivation List will be released on 28 February. This list will include both National Guard and Army Reserve units and will show the overall impact by state.

Mr. MOLLOHAN. Thank you.

Following up a bit on Mr. Kasich's questions about readiness, there have been some really negative reports about the defense business operating fund, the DBOF, and the last few years, DOD and I think Congress both have teamed up to decrease the funding for this central pool of funds.

How does this budget deal with the problems plaguing the DBOF?

Secretary PERRY. Let me first of all say that when I described financial management reform as being high on our agenda, that included the way DBOF is being managed. I have spent more hours than I care to spend sitting in planning and discussion meetings on how to improve DBOF. The man responsible for making the improvements is sitting to my left, and I will give him a chance to describe them in some detail.

Mr. HAMRE. May I take just a moment to describe what DBOF is, because there has been a lot of misunderstanding about it. The Department of Defense has had for 100 years of industrial funds, revolving funds, and the reason was simple. It didn't make economic sense for an individual battalion commander to go out and

buy spare parts from industry for the items of equipment in his battalion.

And so we set up a system of wholesale and retail process inside the Department, where the Department of Army on behalf of all battalion commanders would buy spare parts for tanks and engines and this sort of thing. So we would put in the budget for a battalion commander what it takes to buy from an Army depot, what it takes for the year. There were several accounts, and 3 years ago the Department consolidated them all together into a single fund called the Defense Business Operations Fund.

That was not where we got in trouble. Where we got in trouble was, for the first time with the creation of the Defense Business Operations Fund we tried to capture the full cost of doing business. In the past we didn't aggregate all the costs it took to repair an engine, because some costs were hidden. We had never billed, for example, equipment or the facilities essential to the final product or military personnel costs.

So for the first time with the DBOF change, we tried to aggregate all of the costs to make the price equal costs, or as close as we could get to it. What this looked like to the average battalion commander is all of a sudden the price went up by a factor of two. In practice, it cost us the same as the government but it wasn't showing up as the price to him as the battalion commander. It looked to him like we had a sharp increase in costs, whereas in fact the costs were already being reflected in the budget, but in a more honest way.

It looked like to the battalion commander that he wasn't getting any more for a lot more money that he had to put out. He was feeling all the pain associated with DBOF but he was not seeing any of the benefits.

Battalion commanders made a rational economic choice. When all of a sudden the prices went up, they started finding other ways to do business, and said we cannot afford to get a new depot repaired engine; let's fix it here at our local base.

Depot commanders, though, all of a sudden saw their work fall off and are saying, "My goodness, why am I not getting as much work coming in the factory door." And the depot commanders have not started lowering their costs. So we started losing money in the DBOF accounts. It wasn't that the DBOF was screwed up. It was that the reform worked. People were being more rational businessmen at the battalion level, but we weren't reacting quickly enough at the depots. We have to get on top of the cost reduction at the depot and supply system. That is now where the reform effort is that is under way inside the Department. We lost a fair amount of money last year in the supply system because we did not catch up in time. That is now the challenge that is in front of us.

If I could go back to what Mr. Kasich raised on this issue, we actually increased to the unit commanders in their operating accounts what it took to do the depot maintenance activity. It isn't a smoke and mirrors with DBOF. We increased by 20 percent in real terms \$900 million, what it took to increase depot activity this year. And it isn't simply taking it out in one hand and putting it back in another.

Secretary PERRY. I would like to make one other comment on that. Underlying this whole problem is a fundamental business decision, and that is that we have excess capacity in the depots. If we cannot get that excess capacity removed, that excess overhead cost is going to somehow get reflected in the defense budget.

What we are trying to do in DBOF is get it reflected in the costs to the user so that the user will put the pressure on to get these costs reduced. One way he puts the pressure on is to go to alternative sources to get the product. We are trying to get a market system of sorts going here so we can judge these issues on a businesslike basis. It is exceedingly difficult to get the Defense Department to operate even in a small thing like maintenance accounts on a businesslike basis.

Mr. MOLLOHAN. Thank you, Mr. Chairman.

Chairman SABO. Mr. Browder?

Mr. BROWDER. Thank you, Mr. Chairman.

Mr. Secretary, let me welcome you to the committee. I am also on Armed Services. I didn't get a chance to speak with you yesterday, but I have got a few questions I would like to ask you and a few comments I would like to make to you.

First let me tell you that I think you are doing a good job. You have got a tough job but you are making the best of a bad situation. We do disagree on a few things but I trust those can be resolved in a rational manner.

What I would like to do is ask you three, or make three quick observations so that I can leave time for my colleagues to ask some questions. The first is, you stated your budget here, and you stated your position in some other forums. I would like to ask you about your immediate superior, the Commander in Chief. You cannot speak for the President of the United States, but you can tell us whether you have received assurances that the Commander in Chief supports this budget and will support this budget as those of us on this committee and other committees and in Congress fight to preserve the defense budget.

Particularly or specifically, we are concerned about maintaining the overall level. Could you tell us what assurances you have received from the President about this budget?

Secretary PERRY. The answer to your question is yes, I have received such assurances.

Mr. BROWDER. Is the President prepared to assist those of us in Congress who will fight to maintain this line?

Secretary PERRY. I think that is a question you better ask the President, what tactics or strategy he would use to implement his objective. But he has stated to me his objective is to support this budget.

Mr. BROWDER. We will ask him, but I want you to tell us what assurances you have received as Secretary of Defense.

Secretary PERRY. I have discussed the budget with him and his commitment to the budget, and I have been assured by him that he has a strong commitment to this budget and will support it.

Mr. BROWDER. Specifically, the question has been raised about impact aid. I am for impact aid, a lot of us are for impact aid, but could you specify your position on the effort to take the impact aid money from the defense budget?

Secretary PERRY. I am opposed.

Mr. BROWDER. Why?

Secretary PERRY. Because it would be an additional \$900 million reduction in the programs we have already laid out here. Whatever problems we have been describing in maintaining readiness within the system are going to be aggravated by another \$900 million if we do that.

Mr. BROWDER. Besides the changes that would perhaps cause in the education budget, the money that you would be required to pay, you would have no control over how that money is spent, is that right?

Secretary PERRY. In general the principle of administering this fund and administering education programs being better done by the Department of Education, I think is a sound principle. I think there are good government as well as fiscal reasons for being opposed to it.

Mr. BROWDER. On the readiness issue, I think you can tell from the comments that have been made up here that you will after us—many of us approve of the direction that the numbers are going in, that you are looking out for readiness in a declining budget. But a lot of us are concerned that these numbers belie what is really happening. A lot of us are concerned that readiness, despite these numbers, readiness is suffering, and I would hope that you would pay attention to these concerns and that you would not be satisfied with just accepting that the readiness numbers are positive in this budget.

Third, I would like to talk to you about doing business differently. I think it is very important that all of us do business differently. But I would urge you, as you try to do business differently, that you consider a different perspective than what I have seen so far coming from the Department of Defense.

What I have seen so far is that there is a bias against the public sector defense depots. I understand that—you understand that we have established a task force to study this, and you are directing that now. But the impression I get is that many people think that that task force's purpose is to study how we move this work from the public sector to the private sector.

My understanding is that that is not the purpose of the task force. The purpose of the task force is to study the entire picture, so that we can do this better.

I don't want to get into the 60/40 fight, because that is getting too specific. But there is a study in the Defense Department that I just got a copy of about a month ago, which looked at the work done by the depots, and it says that the total budget is \$13 billion. When you take out what is core and what is already committed, the Defense Department's own study said that there is only about \$1 billion up for grabs. And the conclusion is that that is not enough for the private sector to be looking to for its salvation.

So I would hope that you would pay close attention to the fact that it is not in our national interest to gut the public sector depot work in order to provide a drop in the bucket to the estimated \$100 billion private sector spending.

And finally, Mr. Secretary, in doing business differently, I noticed in the newspaper about a month ago an article about debiting

the vendors. It said, 20 agency officials gathered in the Old Executive Office Building and one after another signed a pledge that holds the potential to substantially alter how the government awards contracts throughout its \$200 billion a year procurement system. Everybody signed that except for a couple of agencies.

I am assuming that the Defense Department signed that pledge. But the common sense view is, as Alice Rivlin said, You mean they never looked at past performance in contracts before? What is this? What took the government so long?

I would hope that the Defense Department is not just finally discovering that we need to look at the track record of contractors that we have been dealing with. We have studied the public sector to death. Let's take a look at the private sector so that we can start saving some money and not just keeping—giving contracts over and over to people who perhaps have not performed well on that.

I know that that is a lot that I have put on you, and I will not ask you to respond to all of that now, so that other people can ask their questions, but we are concerned, some of us are concerned about assuring the President's support for this budget as we go through. We are concerned about readiness, and we are concerned that the Defense Department do a good job in doing business differently.

Secretary PERRY. I will make very quick comments, if I may, to each of those. Are we out of time?

Chairman SABO. We have eight Members left. We have about 20 minutes left. I will let you respond in writing, I think, to Mr. Browder's comments.

[The information follows:]

This is a good opportunity to disabuse the notion that there is a bias against the public sector defense depots. On the contrary, it must be emphasized that both the private and public sectors of the defense maintenance industrial base are essential to the readiness and sustainability of our Armed Forces. The Department has concluded, however, that there is excess capacity in each sector. Our challenge is to ensure that our infrastructure is properly balanced to meet the future force structure requirements.

The Department supported the direction contained in Section 341 of the FY 1994 Defense Authorization Act that established the Depot Maintenance Task Force. Congress set forth nine very specific tasks to be accomplished by the Task Force. One of those tasks is to identify functions and activities suitable for in-house and contract accomplishment. The Task Force composition is in balance, from a Government and Industry perspective, and only highly qualified people have been invited to participate. The Task Force is operating under the auspices of the Defense Science Board and is conducting its business in an independent fashion.

Chairman SABO. I would ask the other Members, please, short questions, short answers, and let's see if we can get everybody in. Mr. Smith?

Mr. SMITH OF MICHIGAN. I will try and be as quick as I can. However these issues are important to America.

Several serious concerns I think are important. First, with the President and Vice President suggesting we reduce 252,000 Federal positions and Congress agreeing, what is defense's share of that 252,000 reduction in personnel?

Secretary PERRY. One hundred sixty thousand.

Mr. SMITH OF MICHIGAN. A question on the BRAC process.

Secretary PERRY. That is included in the budget I submitted to you, that is embodied in this budget, that 160,000 reduction. That

is not incremental, what I have described to you here. It is already incorporated.

Mr. SMITH OF MICHIGAN. Let me talk about the BRAC process. It is important that the BRAC process maintain its credibility. It is how we have been able to make some of the decisions to close bases and realign functions.

In Michigan, of course, the BRAC process has closed K. I. Sawyer and Wurtsmith Air Force Base. The BRAC commission decided last year that DOD's recommendation to realign the facilities at the Federal Center at Battle Creek was inappropriate, and those facilities should stay in that location.

And I would just suggest to you that if we are going to maintain the credibility of the process with Congress going along with the decision, it seems reasonable that DOD also go along with that BRAC conclusion, even when it is against the DOD recommendation. And I understand that Admiral Straub or the DOD is trying to circumvent some of those decisions by BRAC in the instance of the Battle Creek Federal Center.

So I would hope you would look into that. I just think it is important that we keep the credibility of BRAC in place. So I just call that to your attention.

Let me conclude with procurement.

Chairman SABO. Quickly.

Mr. SMITH OF MICHIGAN. Am I on my second minute?

Chairman SABO. No, you are way beyond.

Mr. FRANK. Does he have to leave at 12:30? Is that the problem?

Chairman SABO. Yes. The Secretary has to leave at 12:30.

Mr. FRANK. I would hope we could schedule Cabinet officers so we could all get in questions.

Chairman SABO. The problem is he is in front of several committees today.

Mr. SMITH OF MICHIGAN. Do you support the panel's recommendations on procurement reform?

Secretary PERRY. Yes.

Chairman SABO. Mr. Pomeroy?

Mr. POMEROY. Mr. Secretary, I will be as brief and focused as I can be. I am going to specifically talk about bomber capability within the 1995 Department of Defense budget as compared to the Bottom-Up Review process.

The Bottom-Up Review came up with the 184 bomber strategy, 95 of those being the B-52 bomber. This budget calls for 107 bombers, about 40 B-52s. It would seem to me that we are dangerously shortchanging ourselves on the B-52 bomber capability at a time when we are years away from having the B-1s fully upgraded, or the B-2s fully on line.

That would seem to me very curious, in light of the fact that over the years \$41 billion has been invested into upgrades on the B-52 aircraft, which is now paid for. We have it. We have paid for it. We have tested it. We know its capability. In fact, its capabilities include great range and great mission flexibility, including conventional, nuclear, even maritime capabilities with its mine-seeding capabilities.

So, Mr. Secretary, to draw down to 40 B-52s clearly advocates a twin theater role for this aircraft. Do you have a response? Are you comfortable with that number in this budget?

Secretary PERRY. First of all, on the basic assumption, the Bottom-Up Review did not encompass all aspects of the forces. It had some unfinished business associated with it, one of which was the strategic nuclear forces. It explicitly set that aside. Another is the depot maintenance studies. Those studies when done can be considered as annexes or appendices to the Bottom-Up Review.

In particular, as you know, we have a Nuclear Posture Review study in full swing right now. In a few months, we expect to have a conclusion for that. That will give us a basis for making a final recommendation on B-52s. The budget figures we have for the B-52 are place-holders until we get that result. And we are prepared to revisit the numbers on the B-52 after we get the results of that study. We will be prepared to defend that study with the Congress when we have it done. And it will include both the issue of the strategic use of the B-52 as well as the conventional.

Mr. POMEROY. A place-holder. For this committee to try and arrive at the defense budget, what does that mean?

Secretary PERRY. That means that when we submit a budget 5 years ahead of time, we have to make assumptions which as we perceive we may find out better judgments to make about those assumptions. In this case, we had not done the Nuclear Posture Review study at the time we did the budget, so we had to make an assumption, an estimate as to what the outcome would be. There would have been no point in doing the study if we could guess the answer in the first place.

So the answer to this study may turn out different from what we have in the fiscal year 1995 budget. If that happens, we will come back to the Congress and tell you, and I am confident it will be well before you make a final resolution on the budget.

Mr. POMEROY. My closing observation would be that it would seem a much greater cost benefit to American taxpayers to continue a bomber system with demonstrated ongoing capability that has already been paid for rather than reduce these—severely restricting their strategic deployment options—in favor of bomber systems yet to be built.

Secretary PERRY. That point of view will be very carefully entertained in the study, I can assure you. There are strong advocates of that point of view in the Pentagon as well as in the Congress.

Mr. POMEROY. Thank you.

Mr. SMITH OF MICHIGAN. May I submit questions in writing to the Secretary and have those made part of the record?

Chairman SABO. Yes.

[The information follows:]

Question: Next year, about this time, your recommendations on additional base closures are due to the 1995 Base Realignment and Closure Commission.

Do you support the BRAC process, and in particular, will you and Admiral Straw support last year's BRAC Commission to maintain the Battle Creek, Michigan operation in the Federal Center?

Response: The Department recognizes that closing bases is necessary to cut overhead and maximize readiness within budget constraints. The 1995 closure round is the last opportunity the Department has to take advantage of the extraordinary authorities it has been granted.

With respect to the Defense Logistics Agency's operations in Battle Creek, the 1990 Base Closure and Realignment Act directs the Department to consider all military installations equally without regard to whether the installation has been previously considered or proposed for closure or realignment. Given this requirement, the Defense Logistics Service Center and Defense Reutilization and Marketing Service in Battle Creek, Michigan, will be included in the Department's analysis of installations during the BRAC 95 process.

Question: Do you think it is appropriate under "the economic considerations" of BRAC to include direct DoD expenditures compared to other states?

Response: No, I do not think it is appropriate to include a comparison of each state's direct DoD expenditures as one of the economic impact criteria. While the Department is sensitive to the economic impact its decisions can create in host communities, the primary focus of the base closure process is national security. In order to maintain that focus, the final selection criteria must continue to give military value priority consideration.

Question: Would you provide me with a summary of the estimated DoD payroll (total and per capita) that will exist after current BRAC recommendations have been implemented for each of the fifty states?

Response: The attached table contains estimates of DoD payroll for full-time active duty military personnel and appropriated fund, full-time civilian employees by state (total and per capita) after base closure recommendations from 1988, 1991, and 1993 are implemented. The estimates are derived by place of work, and therefore do not include payroll for military personnel and civilian employees who are stationed outside of the fifty states and the District of Columbia. Also, the estimates only take into account the payroll effects of reducing military forces and civilian employment resulting from the base closure and realignment process.

The estimates have some important limitations that I would like to call to your attention. First, I wish to emphasize that the table entries are indeed estimates, not detailed projections or forecasts. Second, the estimates do not include payments to retired military personnel and payroll for reserve personnel, national guard personnel, and part-time civilian employees. These costs are not readily available on a state-by-state basis. In addition, the estimates do not include the payroll of DoD contractors. The Department has no way of estimating the ultimate payroll costs paid by the prime contractor and any of its sub-contractors.

Estimated DoD Payroll for Full-Time Active Duty Military Personnel and DoD Civilian Employees
That Will Remain After BRAC 1988 Through 1993 Actions Have Been Completed

(In Millions)

State	Estimated Payroll for Full-Time Military Personnel and DoD Civilian Employees	Estimated Payroll for Full-Time Military Personnel and DoD Civilian Employees Per State Resident
Alabama	\$1,545	\$374
Alaska	\$1,053	\$1,800
Arizona	\$962	\$251
Arkansas	\$349	\$145
California	\$9,268	\$300
Colorado	\$1,622	\$467
Connecticut	\$538	\$164
Delaware	\$189	\$275
District of Columbia	\$1,174	\$1,987
Florida	\$2,952	\$219
Georgia	\$3,362	\$497
Hawaii	\$2,002	\$1,730
Idaho	\$187	\$175
Illinois	\$1,491	\$128
Indiana	\$787	\$139
Iowa	\$105	\$37
Kansas	\$986	\$391
Kentucky	\$1,599	\$426
Louisiana	\$985	\$230
Maine	\$483	\$391
Maryland	\$2,579	\$525
Massachusetts	\$640	\$107
Michigan	\$433	\$46
Minnesota	\$211	\$47

Estimated DoD Payroll for Full-Time Active Duty Military Personnel and DoD Civilian Employees That Will Remain After BRAC 1988 Through 1993 Actions Have Been Completed—Continued

(In Millions)

State	Estimated Payroll for Full-Time Military Personnel and DoD Civilian Employees	Estimated Payroll for Full-Time Military Personnel and DoD Civilian Employees Per State Resident
Mississippi	\$774	\$296
Missouri	\$1,159	\$223
Montana	\$165	\$200
Nebraska	\$514	\$320
Nevada	\$345	\$260
New Hampshire	\$78	\$70
New Jersey	\$1,270	\$163
New Mexico	\$740	\$468
New York	\$1,074	\$59
North Carolina	\$3,502	\$512
North Dakota	\$319	\$502
Ohio	\$1,602	\$146
Oklahoma	\$1,566	\$488
Oregon	\$140	\$47
Pennsylvania	\$1,964	\$164
Rhode Island	\$309	\$308
South Carolina	\$1,621	\$450
South Dakota	\$194	\$273
Tennessee	\$279	\$56
Texas	\$4,519	\$256
Utah	\$770	\$424
Vermont	\$38	\$66
Virginia	\$8,313	\$1,303
Washington	\$2,632	\$512
West Virginia	\$98	\$54
Wisconsin	\$324	\$65
Wyoming	\$155	\$333

Question: As co-chair of the Bipartisan Freshman Task Force on Procurement Reform, I am very interested in streamlining procurement. I know that you back efforts to reform the way the Pentagon makes its purchases.

Has Davis-Bacon and the Service Contract Act impeded DoD's ability to most efficiently procure new facilities, technologies, and other purchases?

Response: The Department welcomes the efforts of the Bipartisan Freshman Task Force on Procurement Reform, for as you know I am very deeply committed to acquisition reform.

The DoD Acquisition Law Advisory Panel ("Section 800" Panel) identified the Davis-Bacon and the Service Contract Acts as impediments, among other statutory barriers, to the simplified acquisition of defense purchases. The Department endorsed the recommendation to afford simplified acquisition an exemption from statutes which create government-unique requirements and interfere with established contractor relationships in the commercial marketplace.

Question: Would you support a modification of the 40% domestic content requirement for non-sensitive items?

Response: In general, the Department is supportive of efforts to alleviate problems associated with the 50% domestic content requirement. We have, in fact, developed proposed amendments to Title 10 which would clarify that the Secretary of Defense may invoke the public interest exception to the domestic content requirement: (a) in the interests of national security, the national technology and industrial base, the defense mobilization base, and the national technology employment base; (b) to coordinate acquisition activities of the Department with obligations contained in international agreements and with the acquisition activities of major United States allies; (c) to ensure access to advanced state-of-the-art commercial technology; or (d) to maintain the same source of supply for spare and replacement parts either for an end item that qualified as an American good or where the integration of the military and commercial industrial base would be impeded.

Question: Would you provide me with your other proposed changes for changing DoD procurement?

Response: There are other changes required to streamline DoD procurement and, in that regard, I am pleased to provide my February 9, 1994 White Paper on "Acquisition Reform—A Mandate for Change."

Acquisition Reform

A Mandate For Change

February 9, 1994

Honorable William J. Perry
Secretary of Defense

THE PROBLEM – WHY CHANGE IS NECESSARY

The Post-Cold War era poses a new set of political, economic, and military security challenges for the United States: regional or limited conflicts; proliferation of weapons of mass destruction, both nuclear and non-nuclear; risk to its economic well-being; and the possible failure of democratic reform in the former Soviet Bloc and elsewhere. The President and Secretary of Defense are committed to maintaining the U.S. military's edge over opponents. That means maintaining superior people, training, logistics, and weapons system technology -- the advantage the U.S. now has that allows us to deter aggression, and to prevail quickly with minimum casualties when required to employ force. The President and Secretary of Defense are committed to maintaining a lean, high-tech, agile, ready-to-fight military force during a time in which: the threats are changing and unpredictable; by Fiscal Year (FY) 1997 defense spending will have declined in real terms by over 40% from FY85; and advanced technology is increasingly available to the world.

The Department of Defense's (DoD) Bottom-Up Review provides the vision, and the blueprint, for meeting the security challenges of the post-Cold War world -- responding to threats anywhere in the world where U.S. interests are at risk. In today's environment the current process will not always be able to meet the Department's need. DoD will not be able to carry out this blueprint, without dramatic changes in its acquisition processes -- from determining what the Department needs, to logistics support and reutilization requirements.

Examples of the Need for Change

It is not difficult to see why change is imperative. Stories illustrating the need for reform abound. For example:

DoD is Often Unable to Acquire State-of-the-Art Commercial Technology. A commercial company was planning to introduce a radio with special encryption features sought by DoD. Because the item had not been sold in substantial quantities to the public, it could not qualify for an exemption to DoD's requirement that the company provide cost data. Since the company did not generate such information for their commercial customers, it would have had to set up a new accounting system to track and verify the information if it wanted to sell the radios to DoD. It couldn't afford to do that. The result was that DoD was stuck buying old technology while commercial customers bought the new, more capable radios.

DoD is Often Unable to Buy from Commercial Companies -- Even When Their Costs are Cheaper or DoD Must Buy a Commercial Product Because it is the Only One They Can Get. A military hospital wanted to buy aspirin. The low bid was \$3.98 per unit. DoD ended up

having to buy from the next lowest bidder -- for \$4.40 per unit, because the low bidder was a commercial company that refused to disturb its long-standing subcontractor relationships to fulfill DoD requirements that a certain percentage of its subcontractors were small, disadvantaged businesses. The additional cost to DoD was \$107,000 over the life of the contract.

The Air Force attempted to negotiate a new contract with an aircraft manufacturer to supply spare parts for its military version of a commercial aircraft. The company was only manufacturing the spares in its commercial division, which did not meet the requirements for doing business with the Government. In January, 1988, the company first notified the Air Force that it would need a commercial item exemption in order to provide these spares. It took until June, 1992 -- four and one half years -- until the Air Force and the company were able to agree on contract terms and conditions. During that time countless hours were spent by the contractor, the Air Force, and OSD personnel attempting to determine which of the 278 clauses in the Air Force contract could be waived. They finally received waivers on approximately 11 clauses.

Commercial divisions of a major defense electronics company simply refuse to do business with the Government. They cite several reasons: their commercial division accounting systems cannot provide the cost data required by DoD; they don't want to incur the added cost of complying with Government-unique terms and conditions; they are wary of giving the Government the right to audit proprietary cost and financial information; and fear losing their commercial proprietary data and software. Because many of these requirements are required to be "flowed down" by a prime contractor to its subcontractor, and there is no exception for inter-company transfers, not only can these divisions not sell to DoD, but they cannot transfer their parts to divisions of the company that do sell to the Government without changing their commercial processes to accommodate the Government requirements. This means that the company either cannot use its own company's semiconductors, or cannot charge the Government for the components, because the semiconductor division of the company does not have an approved Government accounting system. One company projected it will have included over \$1,000,000 worth of semiconductors at no cost to the Government on just two current DoD programs.

DoD's Costs of Doing Business are Too Great. DoD sent out a solicitation for a quantity of ant bait expected to cost \$25,595, based on the last purchase made. This meant that DoD had to use the standard, lengthy solicitation procedures rather than existing streamlined procedures for "small purchases" -- those \$25,000 or less. The solicitation was 29 pages long, and it took 227 days to award the contract. As it turned out, the lowest bid came in under \$25,000. Had the threshold for "small purchases" been higher, the contracting officer would have been able to use simplified procedures at the outset, and the contract could have been awarded in 27 days instead of 227.

As a 1991 report by the Center for Strategic and International Studies, concluded, the existing acquisition system:

"[R]esults in higher prices to DoD (even when lower-cost commercial alternatives exist for the same requirements), loss of a broad domestic production base that could be available to defense for peacetime and surge demands, and lack of access to commercial state-of-the-art technologies. Additionally, the wall between engineers and scientists engaged in commercial and military work impedes the kind of shoulder-to-shoulder contact that is the essence of technology transfer and that is basic to achieving greater job stability and growth opportunities for the U.S. work force."

To meet the new National security challenges (political, economic, and military) DoD must --

- **Maintain its technological superiority, and a strong, globally competitive National Industrial base that can support the Nation's future defense needs, by being able to:**
 - **Rapidly purchase commercial and other state-of-the-art products and technology from reliable suppliers who utilize the latest manufacturing and management techniques;**

- Assist in the conversion of defense-unique companies to dual-use production;
- Aid in the transfer of military technology to the commercial sector; and,
- Preserve defense-unique core capabilities.
- Reduce acquisition costs (including DoD's overhead costs) through:
 - The adoption by DoD of business processes characteristic of world-class customers and suppliers (including processes that encourage DoD's suppliers to do the same); and,
 - Relief from the requirement to impose Government-unique terms and conditions on its contractors to the maximum extent practicable.

Maintaining Technological Superiority and A Strong National Industrial Base

While DoD drove technology developments in many areas for years, today the pace of commercial technology advancement in many sectors far exceeds Government sponsored technology efforts. Commercial technology advancements are outpacing DoD sponsored efforts in the same sectors that are key underlying technologies for military superiority (e.g., computers, software, integrated circuits, communications, and advanced materials). The current development and production of DoD systems takes too long. The design cycle for commercial technology is approximately 3-4 years, in DoD it is 8-10 years. Many DoD systems are technologically obsolescent at the time they are fielded.

DoD must have unimpeded access to commercial technologies more quickly than other countries if it is to maintain its technological superiority. Yet, many current laws and regulations are barriers to DoD's purchase of state-of-the-art commercial items, the conversion of defense companies to making commercial products on a competitive basis, and the integration of the defense and commercial industrial bases.

The following are most often identified by industry as significant barriers:

- Unique laws and regulations imposed on Government contractors, such as: Government cost accounting standards; the requirement to provide product cost data; record keeping and reporting requirements; audit and oversight requirements; access to competitively sensitive financial data; socio-economic and mandatory source requirements; requirements for rights in technical data; security requirements; and DoD-unique product and process specifications and standards.
- The instability of the Department's requirements and budget which makes it difficult to predict the market.
- Imposition of Government-unique rules on commercial subcontractors.
- The Government's right to terminate contracts at will.
- Industry's perception there is a tremendous risk that a contractor will inadvertently fail to comply with a Government rule or regulation that will lead to criminal or civil penalties, and a loss of the company's good name in the commercial marketplace.

Companies that do both commercial and Government business often are forced to segregate their facilities to ensure they can track, monitor, and report compliance with Government requirements, and account for inventories of components traceable to Government progress payments and their manufacturing origin. If the facilities are not segregated, the need to ensure compliance with Government requirements adds to the company's overhead costs, typically for both military and commercial products, since once the facility has the compliance systems in place they are generally applied to the entire facility. These additional costs, of course, make the company's commercial and military products less competitive in the global marketplace.

In the past many companies were willing to accept these additional costs because of the large volume of sales to DoD, and the fact that the Government reimbursed them for the costs on products it purchased. However, as DoD's share of many contractors' sales continues to shrink, the companies are often no longer willing to accept the additional costs and production inefficiencies associated with complying with Government administrative requirements. The cost is too high in today's competitive environment.

The semiconductor market is a perfect example of this situation. In 1965 DoD accounted for over 75% of all U.S. semiconductor purchases. By 1995, the Semiconductor Industry Association predicts that sales to DoD will be around 1% of all U.S. company sales. When DoD sales are such a small part of their market, companies are less willing to let the Government dictate to them the terms and conditions under which they will sell their product. They would rather concentrate on their commercial business or sell their products to the Government through third parties as a means of avoiding the unique Government rules and regulations.

In addition, with a procurement budget that has declined more than 60% in real terms since FY85, DoD and the Nation can no longer afford the luxury of maintaining a totally unique defense industrial base. The sharp decline in defense business, and the resultant mergers, acquisitions and bankruptcies of defense companies, is causing a dramatic shrinkage in the defense industrial base. Defense companies that are now supporting our existing weapons systems may not exist when we need them in the future. A reconstituted or larger defense production and logistics capability, if necessary, would have to be based on a National industrial base composed primarily of companies producing commercial or dual-use products, many of whom do not or will not do business with DoD because they will not alter their traditional business practices to comply with Government-unique rules and regulations.

Finally, the burden of defense reductions is felt most sharply by those companies who rely heavily on DoD for the majority of their sales, and small businesses. Those companies who are most dependent on defense business are laying off hundreds of thousands of employees. This is not a temporary layoff pending an up-swing in the economy. These jobs are gone for good unless the company can convert to producing for a commercial market that will make up for the decline in defense business, or adopt another strategy to accommodate reduced defense expenditures while remaining a DoD-only supplier. Small businesses not only disproportionately feel the loss of business revenue, but also the unique burdens placed on Government suppliers. They least of all can afford to bear the spillover of additional overhead costs of doing business with the Government -- the additional employees to ensure compliance, lawyers to explain Government-unique laws and regulations, and the legal risks associated with an inadvertent failure to comply with a rule foreign to commercial business practice, but required when selling to DoD -- onto their commercial products. We must do everything in our power to remove these burdens.

Reducing Acquisition Costs Through Adoption of Business Practices Characteristic of World Class Suppliers

The Carnegie Commission on Science, Technology and Government, using an indirect measure of the cost of the DoD regulatory system, calculated that the overhead, or management and control costs, associated with the DoD acquisition process were about 40% of the DoD acquisition budget, as compared to 5% to 15% for commercial firms. *A Radical Reform of the Defense Acquisition System* (December 1, 1992). This figure includes both the Government's internal costs, and the costs borne by DoD contractors and ultimately reimbursed by the Government.

An Office of Technology Assessment study pegged the costs of DoD's regulatory maze at \$15 to \$75 billion, and concluded that the benefits could not be worth this additional cost. *Holding the Edge: Maintaining the Defense Technology Base, Volume II Appendix*, CCGPO (April 1989). Other studies have indicated that DoD contractors incur additional costs on Government contracts, for identical items being sold to commercial customers, of about 30% over their commercial contracts (e.g., *Integrating Commercial and Military Technologies for National Security: An Agenda for Change*, Center for Strategic and International Studies (Washington, D.C., April 1991)).

The problem is that DoD's acquisition system is a complex web of laws, regulations, and policies, adopted for laudable reasons over many years. For example:

- Military specifications were adopted to ensure DoD got a quality product that would meet the user's needs while using a procurement process that would allow it to buy from the lowest bidder; and to ensure standardization to enable ease of logistics support;
- Cost or pricing data requirements were established to ensure the Government received the same information the contractor had, for use in negotiating a fair and reasonable price;
- Cost Accounting Standards were adopted to provide accounting criteria that would result in comparable costs for like circumstances within a company and to ensure contractors properly allocated costs to DoD contracts;
- Checks on the Government's authority were established to in essence "protect the people" (in this case suppliers), from certain Government demands, such as the inappropriate use of fixed-price research and development contracts;
- Rights in Technical Data have been requested to ensure the Government can operate, repair and maintain its equipment without fear of being held hostage to a sole-source supplier for spare parts and to obtain additional equipment and spare parts at reasonable prices through competition; and,
- Laws such as the Davis-Bacon Act, requirements to use small businesses, and buy only American-made products, were adopted to further a particular public interest.

While each rule individually has (or had) a purpose for its adoption, and may be important to the process as a whole, it often adds no value to the product itself, and when combined, contributes to an overloaded system that is often paralyzed and ineffectual, and at best cumbersome and complex. If there were any doubt that the current system exacts a significant cost in terms of performance, quality, innovation, and prices the Government pays, one need only ask the Government's senior acquisition executives. In a recent U.S. Merit Systems Protection Board survey, a majority of Senior Executive Service members in the Federal Government stated "that the procurement process frequently results in procurement decisions that are neither cost effective nor in the best interests of the Government." *Workforce Quality and Federal Procurement: An Assessment* (July 1992).

There are other problems that must be solved. The existing DoD acquisition system – not unlike that of many companies in the U.S. and around the world – can best be characterized as an "industrial era bureaucracy in an information age." DoD and many of its suppliers are still practicing many management techniques and philosophies that were fundamentally developed by Adam Smith and Alfred Sloan. These philosophies are based on the following:

- Specialization, which led to economies of scale, as the most efficient way to produce products;
- Rigid lines of authority and reporting;
- Creation of rules or practices to address every contingency, if possible;
- Extensive paperwork to document that appropriate actions occurred;
- Detailed design and "how-to" specifications as the only way to ensure an acceptable product, and to ensure a "level" playing field for competition;
- In-process inspections, audits and reviews as the most effective means to assure compliance with the system; and,
- Programming people to conform to established procedures ensured that systems would be predictable, workable, and safe.

The result of these philosophies, however, as authors Michael Hammer and James Champy noted in their book, *Reengineering the Corporation: A Manifesto for Business Revolution*, is a system that is less than perfect in today's world. Systems of this type:

- Create functional stove-piping in which no one person is accountable for an entire process;
- Result in so many hand-offs during staffing that errors and waiting time dominate the system; and,
- Make the ability of any one person to change the process small if not impossible.

This system is at least partially to blame for the characterization by one senior service acquisition official that the DoD acquisition hierarchy had an unquenchable appetite for data and paperwork, was quick to second-guess decisions, and worse yet, revisited decisions endlessly.

People are encouraged to conform -- to follow the rules, to document their actions, and to avoid risk, rather than innovate and use good business judgment. The system rewards those who follow the rules and avoid risk. And it allows everyone to point the finger at someone else in the process -- Congress points to DoD's management, DoD points to Congress, and people within the services point to OSD leadership.

The layer upon layer of organizations, legislation, regulations, policies and oversight, is an impediment to DoD's adoption of business processes that are characteristic of world-class customers and suppliers today. Most companies have begun to recognize that in today's world flexibility and agility are more important than efficiencies achieved by specialization and other benefits attributable to the old management techniques.

DoD is unlike most commercial companies. It is populated by military and civil service personnel who have a different personnel system than most companies. Senior political appointees rotate frequently. There is generally no competition or threat to the organization's continued existence. There is no profit and loss sheet -- no "bottom line." No commercial company is scrutinized like DoD is scrutinized by Congress and the general public. And no commercial organization utilizes the acquisition process to achieve social goals to the extent required of Government agencies.

Yet the critical management issues are the same:

- There are too many people in the organization;
- There are too many regulations;
- There is resistance to change and a suspicion of process management; and,
- There is considerable "stove-piping" of functions and personnel, and massive coordination requirements.

Thanks to the ability and dedication of the thousands of acquisition professionals in the Department of Defense, and the assistance of many contractors, DoD has been able to develop and acquire the best weapons and support systems in the world. DoD and contractor personnel accomplished this feat not because of the system, but in spite of it. And they did so at a price -- both in terms of the sheer expense to the Nation and eroded public confidence in the DoD acquisition system. It is a price the Nation can no longer afford to pay.

While there have already been reductions in the acquisition workforce, continuing reductions in both military and civilian personnel (active duty reduced by 520,000; civilians by 200,000) and the need to reduce DoD's infrastructure mean that there will be further reductions in the acquisition workforce. DoD cannot accommodate these reductions without making changes in the current acquisition process. It must reduce the cost of the acquisition process by the elimination of activities that, although being performed by many dedicated and hardworking personnel, are not necessary or cost effective in today's environment.

No one is suggesting that there be a wholesale deletion of safeguards that have been designed to ensure the integrity of the Government acquisition process, nor the wholesale removal of laws intended to further the social policies of this great Nation. Rather, DoD must advocate a balancing of the risk associated with reducing oversight and the cost to both industry and the Government of compliance. In the case of social programs, the costs of maintaining records to ensure compliance must be balanced against: the contribution to be made by requiring compliance when making small purchases; and, the lost opportunities when commercial companies and small businesses are unwilling to change their standard business practices and contractor relationships in order to comply with a Government socio-economic policy imposed only on Government contractors.

CONCLUSION

Acquisition reform shares a common border with many of our most important goals: saving the taxpayer money; reinventing Government; strengthening our military; and improving our economy. To meet these goals in today's environment DoD must:

- Be able to rapidly acquire commercial and other state-of-the-art products and technology, from reliable suppliers who utilize the latest manufacturing and management techniques;
- Assist in the conversion of U. S. defense-unique companies to dual-use production;
- Aid in the transfer of military technology to the commercial sector;
- Preserve defense-unique core capabilities (e.g., submarines, armored vehicles, and fighter aircraft);
- Integrate, broaden, and maintain, a National Industrial base sustained primarily by commercial demand but capable of meeting DoD's needs;
- Be able to adopt business processes characteristic of world class customers and suppliers (including processes that encourage DoD's suppliers to do the same); and
- Be free to stop applying Government-unique terms and conditions on its contractors to the maximum extent practicable.

Removing requirements that are uniquely imposed on Federal contractors is the single most important step DoD, the Administration, and Congress can take to help defense contractors compete successfully in today's global commercial marketplace, to ensure DoD will have access to a National Industrial base that can meet its needs, to ensure DoD will have access to the latest state-of-the-art technology, and to assist DoD in reducing its acquisition costs.

THE SOLUTION – A VISION FOR THE FUTURE

The Clinton Administration has proposed the first steps in a broad plan to re-invent the Federal acquisition system. The National Performance Review, led by Vice President Gore, provided Federal agencies with the following guidelines for their procurement systems:

- Move from rigid rules to guiding principles (encourage innovation).
- Get bureaucracy out of the way (adopt pilot programs; raise the simplified acquisition threshold; change Government-unique laws to exempt certain types of acquisitions).
- Give line managers more authority and accountability (reward results, not just compliance with rules; focus on the customer).
- Give line managers expanded access to competitive sources of supply (use purchase cards).

- Foster competition, commercial practices, and excellence of vendor performance (increase reliance on the commercial marketplace; integrate the industrial base; increase use of electronic commerce; increase use of contractor past performance).

These guidelines go hand-in-hand with the President's plan for economic development in the technology sector -- an issue critical to the maintenance of a National industrial base that can provide DoD with state-of-the-art technology. *Technology for America's Economic Growth, A New Direction to Build Economic Strength*, tasks the Federal Government to reform its procurement policies by:

- Giving priority to commercial specifications and products.
- Investing in new technologies to facilitate their commercialization.
- Procuring innovative products and services incorporating leading edge technologies.
- Evaluating bids and proposals on a life-cycle basis rather than initial acquisition price.
- Limiting Government acquisition of rights in technical data.
- Using performance based contracting strategies that give contractors design freedom and financial incentives to be innovative and efficient.

Using these guidelines, and the recommendations of the *Advisory Panel on Streamlining and Codifying Acquisition Laws (Section 800 Panel)* -- which are the cornerstone of DoD's legislative proposal -- as well as recommendations from the Defense Science Board, numerous commissions, and experts within the Department, DoD has developed its vision of a re-engineered acquisition system. This vision cannot be achieved through process improvement only. Because the world in which DoD now must operate has changed beyond the limits of the existing acquisition system's ability to adjust or evolve -- the system must be totally re-engineered. If DoD is going to be capable of responding to the demands of the next decade, there must be a carefully planned, fundamental re-engineering or re-invention of each segment of the acquisition process.

HOW TO RE-ENGINEER THE ACQUISITION SYSTEM (FOCUS AREAS)

The re-engineering process is optimally viewed through the framework of: how DoD determines what to buy; the acquisition process as a whole (with emphasis on major systems acquisition); how DoD procures or buys items; and, under what terms and conditions DoD negotiates with its suppliers. These issues must be considered in terms of DoD's need to maintain the United States' technological superiority and a strong, globally competitive National industrial base, while reducing its acquisition costs.

The following is an outline of the goals for the re-engineered system, listed in declining level of priority within each category -- in terms of the benefit to be achieved by changing the process, and the ease or difficulty in addressing the issue successfully. Following the goal are processes that must be examined or initiatives to be pursued, specific problems that have been raised, and any proposed solutions to achieve the goal that have been identified. This list is illustrative, not exclusive, and the priorities will likely change over time. Charters and schedules will be developed for Process Action Teams or Working Groups to address each of these and the many other issues which will require attention as the acquisition process is fundamentally restructured.

Requirements Determination and Resource Allocation (what to buy)

- Strengthen and enforce the preference for commercial items and ensure that requirements for systems, sub-systems, and non-systems acquisitions (including services) are stated in terms of required performance; and ensure that DoD-unique product specifications that inhibit the purchase of commercial items (either systems, sub-systems, components, or services) or dictate to a contractor how to produce a product or provide a service are not used, unless

DoD-unique product or process specifications or standards are the only practical way to ensure the user's needs are met.

- Ensure the translation of mission needs/requirements into stable, affordable, environmentally sound, technically feasible, and best value solutions to a deficiency in current military capability or an emerging need, through a reexamination of the way DoD allocates its resources and establishes its needs/requirements. This process necessarily encompasses an assessment of cost, schedule, and performance risks, as well as National industrial base considerations.

- Analyze the PPBS, DAB, JROC, DPRB, and overall requirements determination processes (including an assessment of the use of simulation as a tool to facilitate formulation and re-evaluation of requirements during the acquisition process).

- Provide for the timely infusion of new technology so that new and existing systems are fielded with the latest technology available.

- Utilize prototyping and limited fabrication of advanced systems to determine producibility and operational effectiveness; and, evolutionary development and infusion of new capabilities in long-term stable production programs where contractor capacity is minimized, and lean, agile, production processes are encouraged.

- Provide for the appropriate participation of potential suppliers in DoD process action teams and working groups beginning at the earliest point in the cycle -- when establishing the system requirements.

- Allow DoD to leverage its investment with that of the private sector (a critical factor given the reduction in the defense budget).

- Support increased use of dual-use technologies and sharing of technology with the commercial sector (improve DoD's ability to develop and transfer technology from defense laboratories to commercial companies).

- Increase purchases of commercial products.

DoD Acquisition Process (how we buy)

- Streamline the acquisition process, focus on continuous process improvement, and ensure that the acquisition process is responsive to customer needs in a timely fashion.

- Ensure that DoD organizations (with the exception of those organizations whose mission is to perform inspection), are value-added team participants, not inspectors, both in relation to other organizations in the Department, and with respect to DoD's suppliers.

- Shift from a management philosophy that attempts to achieve high quality and performance through after-the-fact inspections, to one that prevents defects through controlling its processes, and reviewing the process controls of its contractors (focus on process control rather than hands-on inspections).

- Ensure that oversight, testing, and inspection (both internal and external), where necessary to ensure compliance with enunciated policies or requirements, are performed in the least obtrusive manner necessary to add value to either the overall process or the particular acquisition, consistent with the risk of impact to the Government in the absence of such oversight.

- Ensure that reporting requirements, when necessary to ensure compliance with policy, include requirements for data that already exists and can be collected without undue additional administrative burdens, to the maximum extent practicable.

- Ensure that policies and processes are structured so that the fewest number of people are involved in a given process, and the need for reconciliation or coordination is minimized.

- Be able to balance the need for a particular policy or law to protect or further a Government interest with the need for efficiency and cost savings, and with the need to innovate and manage risk rather than avoid it (DoD cannot afford to maintain a "perfect" system).
- Provide incentives for acquisition personnel to innovate, while providing appropriate guidance and the benefit of "lessons learned" in the past.
 - Tailor acquisition policies and processes to the type of acquisition (e.g., commercial items, research, development, major systems acquisitions with little risk, with significant technical risk), rather than the current "one-size-fits-all" or "menu" approach, provide "alternative acceptable approaches" rather than mandatory policies (to ensure acquisition decision makers are provided additional guidance on appropriateness of certain clauses and requirements), and provide as much guidance as possible in the FAR or DFARS rather than individual organizational supplements.
 - Increase teamwork and cooperation to ensure sharing of "lessons learned" and prevent "reinventing the wheel" within the Government and industry.
- Be more flexible and agile to be able to respond to the constantly changing threat and the pace of technology advancements. DoD needs to develop the most efficient, timely, and effective means of acquiring state-of-the-art goods and services to meet its needs at the best value to the Government (in the most cost-effective manner, over the life-cycle of the product or service), while protecting the public trust, and enhancing certain Government socioeconomic goals -- such as increased small and disadvantaged participation in the DoD marketplace.
 - Adoption of new acquisition strategies not geared toward full-rate production of all systems in research or development (e.g., limited production, roll-over plus, silver bullet strategies; lean production; concurrent engineering; flat production rates; and integrated product and process development).
- Provide more funding stability and flexibility to manage programs in the best manner possible.
 - Develop innovative methods of funding that would alleviate inappropriate impact on program management (e.g., limiting use of concurrent engineering) caused by rigid rules regarding utilization of funding sources (e.g., anti-deficiency rules; "color of money" issues; etc.).
 - Reduce unexpected program budget changes.
- Encourage innovation in products and practices, both in Government and industry, even if it will result in occasional mistakes.
 - Switch from serial design and production to a concurrent processes with integrated functional teams, through increased use of Integrated Product and Process Development, concurrent engineering, agile manufacturing techniques, information technology, statistical process control, and other commercial practices).
 - Encourage risk management rather than risk avoidance. ---
- Ensure that reductions in the acquisition infrastructure, including personnel and organizational changes, are made on the basis of changes in the acquisition process, rather than to reach arbitrary targets.
- Substantially reduce the time it takes to acquire products and services.
 - Streamline the source selection process for major systems.
- Make maximum use of technology to facilitate and enable re-engineering of the acquisition process.
- Establish clear measurements of system responsiveness.

- Eliminate functional stove-pipes and replace them with integrated decision teams that provide the necessary cross section of functional expertise to address and resolve program issues at the lowest possible management level.
- Empower people by providing appropriate education and training, moving decisions to the lowest level possible, and providing appropriate guidance, not rules.

Contract Terms and Conditions

DoD Must:

- Adopt the principle that, to the maximum extent practicable, the Government shall not impose on its contractors or subcontractors any law, regulation, policy, practice, process, or procedure, standard, specification ("terms and conditions"), that is unique to the Government, when purchasing a commercial item.
- Adopt the principle that, to the maximum extent practicable, the Government shall impose on its contractors and subcontractors no Government-unique terms and conditions, **unless:** that particular aspect of the buyer-seller relationship is not adequately "regulated" by market forces; the financial and ethical integrity of the Government acquisition process is not adequately protected; or, the furtherance of National domestic policies justify the use of a Government-unique term or condition. If so, there should be a balancing of the Government's interests with the cost to the Government and industry of applying the Government-unique provision.
- Ensure that it buys on the basis of best-value and rewards past contractor performance.
- Avoid cost analysis and utilize market-based tools other than direct competition between like products, to determine a fair and reasonable price (e.g., comparison of price of new breakthrough technology with cost of technology that would be replaced; or comparison with alternative options to satisfy a need other than through the acquisition of that particular item). Transition from a cost-based system (primarily focused on justifying costs, not reducing them) to a price- or value-based system (price based on value to the customer -- whatever the market will bear) to the maximum extent possible.

MAKING REFORM A REALITY

Because of its complexity, a major overhaul of the acquisition system can not happen overnight. Many before have tried to fundamentally change the system and failed. The key to success is, that in addition to identifying the need for change, developing proposals for change, and enunciating the guiding principles for a new acquisition system, DoD's current senior leadership is committed to ensuring that changes will be accepted and institutionalized.

A Deputy Under Secretary of Defense for Acquisition Reform (DUSD(AR)) has been appointed to be the focal point for the development and implementation of a coherent and practical step-by-step plan for re-engineering each and every segment of the acquisition system. The DUSD(AR) has a small dedicated professional staff to lead and coordinate efforts to address the priority change areas identified by the Department's senior management. The Office of the DUSD(AR) will also follow-up to ensure implementation of recommended changes. The staff is purposely small to foster reliance on integrated decision teams made up of individuals who are actively involved in the day-to-day acquisition process, and who are in the best position to develop specific plans for change.

The DUSD(AR) chairs a DoD Acquisition Reform Senior Steering Group, comprised of the Vice Chairman of the Joint Chiefs of Staff; the DoD General Counsel; the DoD Comptroller; the Director, Defense Research and Engineering; the Director, Program Analysis and Evaluation; the Assistant Secretary for Command, Control, Communications and Intelligence; Director of the Defense Contract Audit Agency; the DoD Inspector General; the Directors of Defense Procurement and Acquisition Program Integration; the Service Acquisition Executives; the Director, Defense Logistics Agency (or individuals authorized to act on their behalf in representing the position of their organization). The Steering Group members make recommendations on proposed acquisition reform goals and objectives, further identify areas

for change, assist in establishing priorities, designate experts from their activities to serve on process action teams and working groups, make recommendations to the DUSD(AR) on issues that could not be resolved by the teams, coordinate proposed actions within their organizations, and ensure implementation of final plans of action within their organizations.

Members from other organizations with acquisition authority or interest have been invited as advisors to the Steering Group, including: other DoD agencies with acquisition authority; the Assistant to the Secretary of Defense (Legislative Affairs); the Assistant to the Secretary of Defense (Public Affairs); the Defense Systems Management College; the Director, Defense Performance Review; the Director, Acquisition Education, Training and Career Development; the Director of Operational Test and Evaluation; the Director, Test and Evaluation; the Assistant Secretary (Economic Security); the DUSD (Environmental Security); the DUSD (Logistics); and, the Director, CALS and EDI. By invitation, the following organizations will be asked to participate when common interests converge: representatives from other interested DoD activities; Heads of Contracting Activities; Program Executive Officers and Program Managers; Commanders of the Service Commodity Commands (e.g., ESC, ASC, TACOM, MICOM, NAVSEA, SPAWAR); other Federal Agencies and entities (such as the Office of Federal Procurement Policy, the National Economic Council, and the National Performance Review Team); and Congress.

Process Action Teams (PATs) and working groups, which will be utilized to develop re-engineering plans, and are key to the success of the acquisition reform effort, will be integrated decision teams -- cross-functional, cross-service and cross-agency. They will be responsible for:

- Analyzing a current practice;
- Identifying the costs (money, time, personnel) associated with that practice;
- Identifying "interested or affected parties" and consulting with them about the practice, alternative approaches, preferred solutions, etc.;
- Identifying alternative approaches consistent with the principles of the new acquisition system;
- Identifying incentives to encourage change to the new practice or process;
- Recommending the best option for addressing the issue, after identifying the ease or difficulty of adoption of a preferred option;
- Developing any new legislative, regulatory, policy, or administrative changes required to implement proposed options;
- Developing measures of success in making the changes so DoD can track progress;
- Developing specific implementation plans (specific actions; time in which to complete them, etc., including training of DoD personnel; and
- Developing a process for follow-up to ensure the changes have been institutionalized (in particular to identify incentives and other mechanisms to ensure change to, and compliance with, the new processes and procedures, as well as an organizational structure to supervise implementation of the plan).

The process action teams and working groups will include operational experts and staff advisors (as identified by the DoD Steering Group) from OSD, the Military Departments, and the Defense Agencies. The teams will also seek advice and participation from other Federal Agencies, Congressional offices, and industry as appropriate.

Finally, while the DUSD(AR) examines ways to re-engineer DoD's business processes, other DoD components will continue to pursue changes in policies, practices, and regulations to make the existing system function more effectively. These efforts will be coordinated with the DUSD (AR), either directly or through their Steering Group member, to ensure changes are consistent with the approaches being pursued by the Acquisition Reform office.

IMPLEMENTATION

DoD began the process of reform by targeting certain segments of the acquisition system that promise to yield immediate and substantial improvements in the critical areas outlined above. Acquisition reform priorities will evolve as DoD continues to interface with other organizations and entities conducting related efforts, such as the Vice President's National Performance Review, the National Economic Council (working defense conversion), and the Defense Science Board Task Force on Acquisition Streamlining, among others, and as the DUSD(AR) consults with the DoD Acquisition Reform Senior Steering Group.

Many of the DoD initiatives will also require coordination with and support from other agencies, such as the Department of Labor, the Small Business Administration, and various interest groups, such as industry, labor unions, and minority businesses. In addition, many of the initiatives could affect the entire Federal Government. DoD will work with the Office of Management and Budget, the Office of Federal Procurement Policy, and other Federal agencies with major procurement responsibilities, including National Aeronautics and Space Administration, General Services Administration, and the Department of Energy to ensure that, when appropriate, acquisition reform initiatives are applied consistently throughout the Government.

The first initiative was to develop a DoD position on all of the recommendations for legislative change contained in the 1800 page Section 800 Panel report (chartered by Congress in Section 800 of the National Defense Authorization Act for Fiscal Year 1991, P.L. 101-510). Given the number and complexity of the issues, developing that consensus as soon as it was accomplished is a tribute to the interest and dedication to acquisition reform of personnel throughout the Department.

DoD placed particular emphasis on two Section 800 proposals: the removal of impediments to the acquisition of commercial products by waiving Government-unique legislative requirements; and, streamlining the acquisition process by increasing the small purchase threshold to \$100,000, while also raising to \$100,000 thresholds for application of legislative provisions that apply only to Federal contractors. The remainder of the recommendations fall within the following categories: Contract Formation; Contract Administration; Major Systems and Testing Statutes; Defense Trade and Cooperation; Intellectual Property Rights; Contracting for Commercial Activities; Service Specific Acquisition Laws; and, Standards of Conduct.

After reaching a consensus internally, DoD began working with the Office of Management and Budget (OMB), the Office of Federal Procurement Policy, the General Services Administration, and Vice-President Gore's National Performance Review (NPR) staff on developing proposed legislation expanding the Section 800 recommendations to include all Government agencies, and including legislative acquisition proposals from the NPR report. To avoid confusion, the Administration decided not to introduce its bill, but instead, to work within the framework of the bills that had already been introduced or were ready for introduction at the time -- S. 1587 and H.R. 2238. The process of exploring proposed alternative solutions to various issues in the legislative proposals (now including H.R. 3586, S. 1598, and the proposed Conyers/Clinger amendment to H.R. 3400) is proceeding. Hearings are scheduled in various House and Senate Committees throughout February 1994.

In addition, Congress had requested the submission of pilot program candidates in Section 809 of the National Defense Authorization Act for Fiscal Year 1991, Public Law 101-510, and in hearings during 1993. A proposed Pilot Program bill encompassing seven programs, was approved by the Administration and sent to Congress a few weeks before the end of the last session. The candidates proposed are: Commercial Derivative Aircraft (CDA); Commercial Derivative Engines (CDE); certain troop support items at the Defense Personnel Support Center (DPSC); Joint Primary Training Aircraft System (JPATS); Joint Direct Attack Munition (JDAM); Fire Support Combined Arms Tactical Trainer (FSCATT); and Global Grid.

The pilot programs are critical because they would "jump start" acquisition reform by allowing DoD to immediately buy certain commercial and commercial-like items using commercial practices (while awaiting implementation of the larger legislative effort). It is essential that DoD continues to press for adoption of pilot program authorization because the proposed bill requests legislative relief that is unique to the systems acquisition process, and has not been considered to the extent other recommendations have been (these laws were not reviewed by the Section 800 panel). Finally, even if the "Section 800" broader reform package is enacted, it will take some time for regulations to be revised and personnel to be trained. Putting the pilot programs in place now will achieve savings earlier while also keeping the momentum for change. In the interim OSD is reviewing and approving (to the maximum extent appropriate) recommendations from the program offices or organizations for regulatory relief to assist them in utilizing commercial products and processes.

DoD also participated in the National Performance Review (NPR) effort by developing its strategy and action plan relating to Acquisition Reform high priority issues. This was done as part of the Defense Performance Review. The report is expected to be released by the White House in the very near future.

Finally, DoD formed two PATs, composed of a cross-functional and cross-service and agency, mix of individuals. The first PAT developed a time-phased plan for a 6-month, 12-month, and 24-month implementation of a standard Electronic Commerce/Electronic Data Interchange system for DoD small purchases. The plan provides "one face to industry," and utilizes commercially available software, for processing contract actions under the small-purchase threshold. This system will allow vendors to connect with commercial Value Added Networks, that will access the entire DoD system at one primary and one backup site, and receive data on all planned purchases. The vendor will be able to provide a quote electronically, and the Government to make an award electronically. Individual systems already in place in the Services and DLA have shown tremendous improvements in productivity, prices, and small business participation. DoD-wide implementation will begin in February 1994. DoD is also co-chair, with GSA, of the Government-wide EC/EDI team established by the Administrator of OFPP pursuant to the President's October 26, 1993, Executive Memorandum. This will assure DoD and other Federal agency EC/EDI efforts are accomplished in a complementary fashion.

The second PAT is addressing the issue of military-unique product and process specifications and standards. This issue is one of the most difficult and complex issues facing DoD. The team was tasked to analyze why Government specifications and standards continue to be preferred despite the current (at least three year old) policy preference for commercial standards, and develop a plan to implement a preference for commercial and performance standards and specifications unless a Government-unique product specification or process standard is the only practical alternative to ensure a product or service will meet the user's needs. The PAT's draft report, which includes a detailed and forward-thinking plan of action, is being circulated within DoD for comment. Resolution of all comments, and presentation of the final report, including recommended actions, to the Under Secretary of Defense (Acquisition & Technology), will be accomplished by the end of February.

Additional PATs and working groups will be formed throughout 1994 to address other issues critical to re-engineering of the acquisition process.

Mr. POMEROY. Mr. Chairman, I would like to ask unanimous consent to put in a letter from the North Dakota delegation on the issue.

Chairman SABO. Yes.

[The information follows:]

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The Honorable Anthony Lake
Assistant to the President for National Security Affairs
Old Executive Office Building
Washington, D.C. 20506

Dear Mr. Lake:

We write to express our very strong opposition to a provision in the proposed Fiscal Year 1995 Defense Budget that cuts the number of B-52H bombers from 95 to fewer than 50. We contend that such a reduction would undercut the Air Force's own stated force requirements and leave our military with inadequate capabilities to respond effectively to threats around the world.

Retaining at least 74 B-52H bombers meets essential defense requirements by providing the current capability, range, payload, flexibility, cost-effectiveness, and political-military value that other bombers and tactical aircraft cannot offer. Despite many years of service, the B-52 still continues to play a virtually irreplaceable role in our national defense.

Present Capability. The B-52 has an impressive conventional capability and provides a credible nuclear deterrent. The Air Force's 1992 Bomber Roadmap states: "Bombers can provide the tools for an initial response or a precision strike ... or deploy forward for a show of force. For campaigns of greater duration, bombers can deliver mass as well as precision. Closing more bases overseas will increase our dependence on long-legged bombers to respond to any threat around the globe."

The September 1993 Bottom-Up Review of U.S. defense requirements called for a force structure of "up to" 184 bombers, of which 95 would be B-52Hs. The Bottom-Up Review also concluded that the nation needed 100 "deployable" Air Force heavy bombers for a single major regional conflict (MRC). A second MRC would require even more bombers. Yet the Department of Defense may recommend reducing the heavy bomber force to 140 aircraft or less. Cutting the B-52 force in half would leave us with 96 B-1Bs, 20 B-2s, and less than 50 B-52Hs, **not enough to meet the conventional force requirements for the two MRCs -- let alone carry out assigned strategic missions.**

A recent GAO report, *Strategic Bombers: Adding Conventional Capabilities Will Be Complex, Time-consuming, and Costly*, states: "Currently, the B-52 provides most of the bomber force's conventional capability. While the B-1B has certain capabilities and features that the B-52 bombers do not have, it currently has less conventional capability than the B-52 and has operational

problems that must be resolved before it can be expected to be the backbone of the bomber force."

In fact, Congress was so concerned about the B-1B's ability to meet its conventional requirements that, in the FY 1994 Defense Authorization Bill, it directed the Air Force to test the capability and readiness of the B-1B force. That test, not completed until late 1995, will reveal much about the B-1B's ability to carry out the conventional bomber mission. The Air Force Bomber Roadmap indicates that the B-1B will not be fully upgraded for conventional missions until at least 2004. What bomber will the U.S. depend on until then? What if the B-1B fails the test?

Moreover, the B-2 was designed as both a nuclear and conventional bomber. But, according to the Air Force Bomber Roadmap, the B-2 will not be fully operational for at least another decade.

The greater capability the B-52 provides over B-1 and B-2 bombers, and tactical fighter-bombers such as the F-15E and F-111, depends as well on range, payload, flexibility, cost and other factors.

Range. The capability of U.S. bombers to attack anywhere in the world from bases in the continental U.S. is critical, especially as the U.S. reduces the number of its overseas bases. The B-52H has an unrefueled range of more than 10,000 miles. This enables the aircraft to respond quickly and project combat power worldwide from bases within the United States. With aerial refueling, its combat range is virtually unlimited. By comparison, the F-111's maximum unrefueled range with internal fuel is 2,925 miles. The F-15E's maximum unrefueled range with internal fuel is 2,765 miles. Aerial refueling can extend these ranges significantly, but the costs in numbers of tanker aircraft required, number of refuelings required, and forward basing of those tankers make such operations difficult, if not impossible.

Without extensive air refueling, tactical fighter-bombers would require basing in or near their theater of operations to be combat effective. During Desert Storm we had long lead times for deployment, a favorable political climate, and a well developed theater infrastructure. We cannot always count on this luxury.

Payload. Desert Storm proved that there is still a valid role for conventionally-armed heavy bombers. During Desert Storm the B-52 flew just over 3 percent of the total combat sorties but dropped 30 percent of munitions tonnage released. The B-52 can deliver eight types of general-purpose gravity bombs and twelve types of special-purpose bombs, including two kinds of laser-guided bombs. A single B-52 can carry up to 51 conventional gravity munitions weighing up to 50,000 pounds.

B-52Gs also employ the Have Nap precision stand-off ground-attack missile. This capability will be transferred to the B-52Hs as the G models are retired. Air Force plans call for 47 B-52Hs to be modified to carry new precision-guided munitions such as the projected tri-service standoff attack missile (TSSAM) and a future joint-service direct attack missile (JDAM).

The B-52H is the only Air Force bomber with a credible maritime role. In addition to delivering 12 different types of sea mines, the B-52H will be modified to employ Harpoon anti-ship missiles as the B-52G models leave active service.

In contrast, the B-1 is now certified to deliver only one type of conventional bomb. The full conventional capability of the B-1 will not be realized until well into the next century. The B-1 capability is further reduced by loading times of up to 40 hours per aircraft and its problems with collisions between conventional weapons during low-altitude releases.

Tactical fighter-bombers carry a mix of weapons, including conventional gravity bombs, current precision-guided munitions, and future standoff attack weapons (TSSAM and JDAM). Compared to

the B-52, however, the number of weapons carried by fighter-bombers is limited. The F-15E and the F-111 can carry up to 24,000 or 25,000 pounds of external ordnance, respectively (vs. the B-52's 50,000 lbs). External fuel tanks (necessary to achieve any credible range or combat radius), air-to-air weapons or other equipment carried on external stations reduce the bomb load.

Flexibility. Complementary to their conventional capability, B-52s also form a crucial leg of the U.S. nuclear triad. As a matter of fact, the B-52 is the only heavy bomber currently tasked to carry out nuclear missions. B-52s also provide system flexibility unavailable to land- and sea-based missiles which cannot be recalled, retargeted, and relocated on a moment's notice.

The B-52 is the only U.S. bomber equipped to deliver air launched cruise missiles (ALCM). START II treaty provisions prohibit fielding the ALCM on the B-1 and B-2. Operation Desert Storm proved the importance of these stand-off weapons. B-52s opened the air war against Iraq when they fired highly accurate ALCMs modified with conventional warheads against high-priority targets in Iraq.

Costs. The B-52 has been extensively modified over the decades of the Cold War era to keep pace with technological advances in navigation, bombing accuracy, and aircraft survivability. Over \$41 billion has been spent on the development, procurement, modernization, and service life extension of the B-52 fleet.

This sunk cost represents an investment that provides a hedge against delays, cost overruns, and technical difficulties in fielding the next generation of long-range aircraft. Unlike weapons systems not yet purchased -- such as the Trident II -- the B-52 bombers are fully paid for.

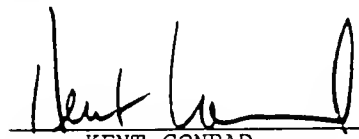
Political-military factors. The United States is currently the only nation in the world capable of employing long-range, strategic aircraft such as the B-52. While not easily measured, the political impact that this capability affords is a national asset that should not be relinquished or diminished. The B-52 has been used for combat operations as well as shows of force to support diplomatic initiatives on numerous occasions throughout the world. There is no reason to suppose that such occasions will not continue to arise in the years ahead.

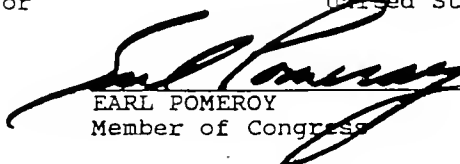
Clearly, the budget constraints imposed by the Congress and the Administration require difficult choices. However, given the uncertainty about the future of Russia and the continuing potential for security concerns in the Third World, it is unwise for the U.S. to abandon much of its conventional and nuclear long-range bomber capability for the next decade. The capabilities of the B-52 and the modest cost of operating and maintaining a strong B-52 fleet surely offset the greater risk of retiring half of this combat-proven system before replacement systems become fully operational.

Consequently, we urge you to retain at least 74 B-52H bombers. Again, we should not make budget decisions that produce relatively insignificant savings -- only \$140 million per year -- in comparison to the greater security risks that arise.

Sincerely,


BYRON L. DORGAN
United States Senator


KENT CONRAD
United States Senator


EARL POMEROY
Member of Congress

Chairman SABO. Mr. Orton?

Mr. ORTON. Welcome, Mr. Secretary. We are pleased to have you heading up the Department of Defense.

I have a question I would like to raise to you, and I will have to provide more detail and submit it to you in writing for a true understanding and response to my question. But I am very concerned, as you are, with maintaining the commercial capability within the defense industry, as well as being able to accomplish the defense conversion that is going to be necessary over the next several years.

I have one example. In my district is a company that produces graphite fiber, which has been used in a number of different weapons systems. In order to ensure the Defense Department that a certain quality or a certain quantity of that fiber is available, and in order to ensure specific very stringent quality standards, the company was required by the Department of Defense to invest substantial amounts of capital, and to in fact be able to oversupply.

As a result, their capital costs now are so high to amortize their equipment against the production capability, that the company simply cannot produce the fiber for as low a cost as the fiber is available on the commercial market.

So what we are looking at doing is recommending a defense conversion tax credit that would allow a more rapid amortization of these increased capital costs against additional commercial revenue that the company made be able to develop, thus costing nothing to the Treasury Department. If the company is able to convert to a commercial product and generate more jobs and more revenues, they would be allowed more rapid amortization of that previous defense capital cost.

I am wondering if anyone in the Department of Defense or Treasury has been looking at this, anyone that I could coordinate with on developing that kind of an approach, because I believe reality is, if we are going to expect our defense industries to be able to convert to commercial products and compete, we are going to have to do something about allowing them the amortization of those excess capital costs necessary to produce the quality and quantity that we expected for military products.

Secretary PERRY. I haven't heard of that proposal, but I will be very happy to look into it. It sounds like an interesting idea.

Mr. ORTON. I will submit more details to you in writing. I would like to work with the administration on developing this idea, because clearly if we expect these companies to compete in the commercial market, we can't expect them to amortize out many of these costs that were incurred specifically to meet the requirements of a growing military industry.

Thank you, Mr. Chairman.

Chairman SABO. Mr. Cox?

Mr. COX. Thank you, Mr. Chairman.

Beginning in the spring of 1993, there commenced public discussion of what intelligence analysts had been looking at for a long time. That was the possibility that North Korea was moving toward development of a nuclear device.

By the end of 1993, analysts were suspecting that North Korea may have produced a number of weapons, leading the United

States to consider a preemptive strike against North Korea's nuclear capacity in the same way Israel took out Saddam Hussein's nuclear reactor. That is a dramatic proposal, but it is suggested because the alternative, which is waiting until North Korea is free to brandish nuclear weapons, would leave the United States defenseless.

I don't expect you to comment on intelligence analysis in response to my question. But even if we were to take the dramatic step of a preemptive strike, it would be just a matter of time before other Third World countries got their hands on nuclear devices. Given that our job is to use the time between now and then to develop a reliable defense against that contingency, I am very concerned to see that your budget for the ballistic missile defense organization is now so substantially lower than what was proposed for fiscal year 1995 by the Bush Administration, which itself was less than 3 percent of our total budget.

As I understand it, we are now down below \$3 billion in total for the ballistic missile defense organization, am I right?

Mr. HAMRE. Three point three.

Mr. COX. Three point two five, is that—

Mr. HAMRE. Yes.

Mr. COX. In any case, that is cutting more than in half the very tiny amount that was already allocated in fiscal year 1995.

How vulnerable U.S. and allied forces will be to enemy missile attacks in places like North Korea? And why is there such a slender commitment to what I think ought to be the centerpiece of a forward-looking defense strategy?

Secretary PERRY. Well, the ballistic missile defense budget has decreased overall from just over \$4 billion to just over \$3 billion. There has been a major shift in emphasis in the budget, whereas the bulk of it before was spent on R&D for space-based systems and for systems that could ultimately defend the continental United States.

We put the major emphasis in this budget, including the FYDP years, on the development and production of a theater missile defense system, which would be applicable in the case you are talking about. There is actually more money being spent in that particular area. We have a robust program moving towards development, production and deployment of such a theater missile defense system.

One consequence of that is there is a very small amount of funds left for the space-based system research or the system that could defend the continental United States. If we see threats emerging against the continental United States, then we would need to shift more funds to protect against that contingency.

Mr. COX. Am I right that you plan to allocate only \$2 billion for theater missile defense out of your budget?

Mr. HAMRE. It is about two-thirds.

Mr. COX. And that is robust?

Secretary PERRY. Compared to what it was, yes. This is the early stages of a development program.

Mr. COX. The Bush Administration had allocated for the same fiscal year \$3.1 billion for that very purpose.

Secretary PERRY. I don't have that figure to compare it. I know whatever they had allocated for this fiscal year, the year we inher-

ited the budget, there was nothing like that. When we came into office, the theater missile defense program had much less funding than that. So we have in real terms increased significantly the amount of money that was being spent on theater missile defense.

Chairman SABO. Would you supply for the record the answer to that question?

Secretary PERRY. Yes, I will.

[The information follows:]

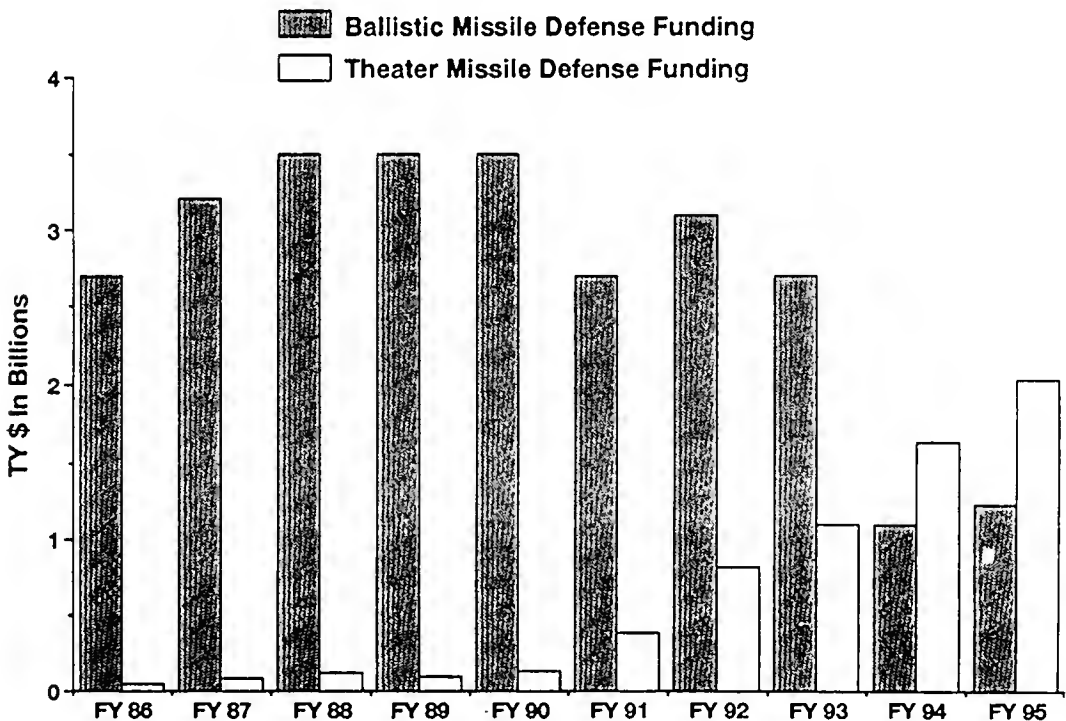
Within the FY 1995 President's Budget for the BMDO, the total allocation for FY 1995 Theater Missile Defense (TMD) activities is \$2.042 billion. This represents approximately 63% of the total BMDO Budget request of \$3.254 billion.

At the time of the FY 1994 BMDO Budget under Mr. Bush, in January 1993, the total allocation for FY 1995 TMD activities was \$3.078 billion. This represented approximately 40% of the total BMDO FY 1995 profile that was in place at that time (\$7.615 billion). This budgeted amount for TMD represented an increase over FY 1993 of \$1.978 billion, a budget growth very difficult to sustain given SDIO's past record with Congress which averaged cuts of more than \$1.2 billion per year.

Within the priorities as established by the Department, the share of BMDO resources has been increased by 23% for FY95 TMD programs. This comes on top of increases in both the share of resources and the absolute dollar values for TMD programs since FY91, with FY94 being the first year that the TMD programs received the greater percentage of the total BMDO resources. The attached chart displays the relationship of the theater to Ballistic Missile Defense programs back to the start of the program.

We feel this is the proper distribution of resources to support the overall mission of BMDO to actively pursue acquisition of Theater Defensive systems while maintaining a technology readiness program for National Missile Defense.

BALLISTIC MISSILE DEFENSE FUNDING COMPARED TO THEATER MISSILE DEFENSE FUNDING



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Mr. COX. I wonder if I might ask for the record, what is included in your budget for base closure for El Toro Marine Corps Air Station to move to Miramar, including not only the MILCON figures

but also the housing and associated costs. Perhaps also you might tell me what the Marine Corps estimated and requested.

Thank you, Mr. Chairman.

[The information follows:]

1. The combined Marine Corps budget request and PresBud One-Time Implementation costs for BRAC II and III are provided below:

BRAC II & III ONE-TIME IMPLEMENTATION COSTS--

	Marine Corps BRAC Request ((\$000))	PRES BUD BRAC Program ((\$000))
MILCON	789,036	487,186
MILITARY FAMILY HOUSING (MFH) (CONSTRUCTION AND OPERATIONS)	428,550	54,395
ENVIRONMENTAL (STUDIES/COMPLIANCE/RESTORATION)	358,127	204,803
OPERATION & MAINTENANCE	202,901	83,749
MILITARY PERSONNEL (PCS)	40,164	6,994
TOTAL	1,818,778	837,127

Chairman SABO. Mr. Frank?

Mr. FRANK. Thank you.

I come from a religious tradition in which we don't do well with converts, so I don't do well with converts very often. I would like to welcome the Republican side as converts.

My recollection has been when we said we would make a cut because we were reducing something from the current services budget, they have said that was not a real cut. The red line there is what they used to call not a real cut when it comes to defense, it is often the case, a different set of bookkeeping applies, and those are now real cuts. So I am glad that they now have accepted current services.

I am told their response to some is that CBO made me do it. When some of us now talk about cuts in domestic programs, HHS and HUD, they respond, Those are not real cuts, they will have to go back and redo their chart, because by their chart, their red line, they have cuts elsewhere.

I do have a question about inflation. You say on page 8, Mr. Perry, that inflation was lower when the budget was prepared than it now looks like. It has been my impression that inflation figures for the economy as a whole have generally been better recently than we had expected. Is there a separate inflation predictor for the Defense Department?

Secretary PERRY. These are referring to the CBO estimates of what inflation in the out years will be. It is projected by the CBO.

Mr. FRANK. But in past years it has been lower than we thought.

Mr. HAMRE. I think what the Secretary was referring to is the baseline—

Mr. FRANK. Answer that one for me in writing. I regret very much that we are rushing this way. You guys are coming asking

for a fairly significant change. I would have liked more time to deal with it.

But I would like to know what those inflation numbers were and what they now are, especially since, look, we know there have been problems in the defense industry. I would think in your industry inflationary pressures ought to be lower than the economy as a whole. You are facing an industry with excess supply and decreasing demand. So I would think, if anything, the inflation numbers you face as opposed to other parts of the economy probably ought to be somewhat lower. Also, in terms of manpower, I wish we had a tighter labor market than we do.

Secretary PERRY. We don't make the inflation numbers. We get them from the Congressional Budget Office.

Mr. FRANK. I understand. I would like to see exactly what they are. I do know inflation has been better recently than we thought. I would like to know how that figures into your proposals.

The other question I have, though, does deal with the question of our allies and what they do and don't do. I am told you talked some about history. The notion that American presence would have deterred World War I, I think I am somewhat skeptical of. World War II is different. Lessons, to draw one-to-one lessons like that from history is not good history and are not good guides to public policy. The history in Europe today is different than in the 1930's, and it was in the teens.

But I do have this question. When we talk about a two-war strategy, I understand people have said the problem is we don't have enough troops perhaps to fight the two-war strategy. How much help are you assuming from our allies in those two wars?

Secretary PERRY. In both of the two-war strategies we looked at, we assumed substantial help from the allies that were in the neighborhood of the country.

Mr. FRANK. How come we do it everywhere and they only do it in the neighborhood? My problem is, when you guys do your budget, words like France, England, the Netherlands, Norway don't seem to have much impact.

Why is it we have to go everywhere and they don't? They have the same interests we do. But you have confirmed the sense here, is that the notion is, we will be everywhere and we will get some help from the people right on the spot.

Have we some greater interest in worldwide stability than our major Western European allies, the European Community, this group of mature and wealthy democracies? Why do we encourage them to do substantially less than we do on a worldwide basis?

Secretary PERRY. I don't believe we do.

Mr. FRANK. You just said that. It is our job to be everywhere and they are only going to be in their neighborhoods.

Secretary PERRY. The last time we had an opportunity to face a major regional contingency we got a lot of assistance.

Mr. FRANK. In terms of manpower, what did the Europeans contribute to the Gulf War?

Secretary PERRY. I will give that answer for the record. It was substantial.

[The information follows:]

BELGIUM	4 combat ships, 2 support ships 18 combat aircraft 50-man medical detachment
BULGARIA	Engineer unit
CZECH.	200-man chemical defense unit 150-man medical team
DENMARK	1 combat ship Staffing for 500-bed hospital
FRANCE	9 combat ships, 19 support ships 40 combat aircraft 120 helicopters Armored division, 9,360 troops 4 air defense batteries
GERMANY	9 combat ships, 14 support ships 18 combat aircraft 1 air defense battery 1000-bed hospital fully staffed
GREECE	2 combat ships, 5 support ships
HUNGARY	40-man medical team
ITALY	10 combat ships, 9 support ships 20 combat aircraft
NETHERLANDS	7 combat ships, 1 support ship 15 combat aircraft 3 air defense batteries Field hospital, 40-man medical unit
NORWAY	4 combat ships 234-man field hospital
POLAND	1 hospital ship, 1 rescue craft Medical team
PORTUGAL	2 combat ships, 3 support ships 240 staffed hospital beds
ROMANIA	364-man field hospital 185-man chemical unit
SPAIN	12 combat ships, 1 support ship 5 support aircraft 1,500 staffed hospital beds Forward medical team
SWEDEN	360-bed field hospital 500-man medical team
UNITED KINGDOM	12 combat ships, 12 support ships 1 hospital ship 87 combat aircraft 92 helicopters Armored division, 15,000 troops

Mr. FRANK. But that contradicts your plan. You say history is that we got some help from them. But you are planning as if it would be us and the people in the neighborhood.

If we had to go to war against North Korea, and that has been a concern, and the people who run North Korea in a rational world wouldn't even be allowed to drive cars. These people would make anybody nervous. But we have South Korea, which is larger and has a better economy than North Korea. Besides Japan and South Korea, who do we anticipate would be joining us if we had to fight a war with North Korea?

Secretary PERRY. In our scenario, and I emphasized this in our scenario, for a North Korean engagement, the decisive point in the battle was over in 20 or 25 days, and the only two forces in a position—if the South Korean forces that are there plus the U.S. forces——

Mr. FRANK. That is part of the problem. We are hardly the only people in the world who have an interest in keeping the wholly unattractive people who run North Korea from getting their hands on nuclear weapons. Similarly, in Europe—where is the second war, in the Middle East?

Secretary PERRY. Yes.

Mr. FRANK. What is the percentage of American troops—what percentage of Western European troops would we assume would be joining us if we had to fight a simultaneous war in the Middle East?

Secretary PERRY. That notion or scenario did not pick European troops. It just assumed some number of allied troops.

Mr. FRANK. But not necessarily Western Europeans?

Secretary PERRY. No.

Mr. FRANK. That is the problem. By the way, you are encouraging this. I think the most popular book in Western Europe without question are the multi-translations of Tom Sawyer because they have got us painting their fences and paying them for the privilege of doing it. It is very much—it is at least more in their interest than it is ours. That is why I am not persuaded we need to give you as much money as you are looking for.

Chairman SABO. Mrs. Kennelly?

Mrs. KENNELLY. Thank you.

Secretary Perry, congratulations. Your answer to Mr. Kasich on the Seawolf has been reported to me and I thank you for that answer.

Quickly, because I know you must leave, we know our air transport cargo system is old, in fact antiquated, and we have a plane that the Air Force has supported, and which we need, the C-17. However, I had hoped the discussion between the Pentagon and McDonnell Douglas in December might have solved some of the problems with the C-17 so we could defend this plane in the budget. But I see where a senior analyst in the CBO has said there are still problems with the program.

Mr. Secretary, are you in the process of once again trying to deal with these problems so we can get on with the delivery of C-17s?

Secretary PERRY. Yes. The C-17 program is probably the single highest priority program which the Under Secretary of Defense for Acquisition and Technology addresses his attention. It is a program

with substantial problems, and he is working hard with the contractor and with the Air Force to address these problems.

Our projection on that project is that we will get those resolved and that we will build at least 40 C-17s. That is contingent on getting the program problems resolved. The best judgment he has from the technical advisers is that that will be done.

Mrs. KENNELLY. Quickly, sir, when Secretary Aspin was Secretary of Defense, the Connecticut delegation and others wrote to him concerning Sikorsky Aircraft and our military's helicopter situation. The Comanche is so important to our research and development, and yet Sikorsky has a real fiscal problem because of the cancellation of the Seahawk and the reduction of a multi-year purchase of Blackhawk helicopters. If I could ask you to again review that letter.

Secretary PERRY. The Comanche is the Army's highest priority, I assure you.

Mrs. KENNELLY. I am so glad we are high on the list of the Army's priorities. I will submit my other questions for the record. [The information follows:]

Question: Do you support the C-17 as the best method in which to serve our airlift needs? What is the status of steps being taken to ensure that the first forty of these aircraft are delivered without further difficulty?

Response: Acquisition of the C-17 is the best method to serve our airlift needs.

DoD is taking several steps to improve the acquisition of the remaining 30 of the first 40 aircraft being procured. As a result of the Defense Acquisition Board (DAB) review last year, we will continue the program for a two year interim period at a production rate of six aircraft per year until flight tests are successfully completed and contractor performance is demonstrated. During this "probationary" period, the contractor must demonstrate capability to deliver quality aircraft on cost and schedule. To improve conditions in this period, the DoD and the contractor reached a comprehensive settlement of outstanding contract and management issues that had reached stalemate between the parties, that were poisoning the overall business relationship and hurting execution of the program. With congressional approval of the settlement, these issues can be put behind the program once and for all. In addition to the initiatives begun as a result of the DAB, the Air Force and the contractor have taken specific corrective actions to ensure improved program performance, reduced costs, and delivery of quality aircraft on time. An integrated product team (Air Force and contractor) approach for managing the program has been established to enhance communication between functional areas that had been a problem in the past and also to establish that direct accountability and responsibility for cost, schedule, and performance of specific aircraft systems resides with the teams. An already active cost control program is being reemphasized at all levels to drive unit cost of the aircraft down; over \$500M of savings (for a 120 aircraft program) is being projected with more proposals in work. McDonnell Douglas established a Senior Vice President for C-17 reporting directly to the Chairman and Chief Executive Officer of the corporation to ensure top level management visibility and attention to all commitments. A replanned flight test schedule was agreed upon that sets a realistic baseline, and to date, the program has managed to stay ahead of schedule.

Question: I am very concerned about the decision to cancel or curtail production of helicopters used by the Army and the Navy. One of the Army's most important research and development programs is the Comanche helicopter. However, before production can begin on the Comanche, Sikorsky Aircraft must first overcome a production gap in fiscal years 1997 and 1998 caused by the cancellation of Seahawk helicopter procurement and the reduction of a multi-year purchase of Blackhawk helicopters for the Army. There is no question that the Army and Navy have strong continuing requirements for these helicopters, which are an integral part of the rapid, mobile forces we will need in the future. I believe any savings achieved by this reduction has the very real potential of harming our long-term production capabilities and our defense industrial base. Late last year, I joined the Connecticut delegation and many of my House colleagues in writing to Secretary Aspin requesting a review of this situation. Since your appearance before the committee, I have received a response to our letter from Mr. Frank Kendall, Director of Tactical Warfare Programs. However, I have questions regarding his response to our concerns about

this issue. In the fifth paragraph of his letter, he refers to the "cost impact" of the decision to cancel the CH-53E or H-60 series of helicopters after FY 1994 and UH-60L after FY 1996.

While I am concerned about the cost impact of this decision, I am more concerned about the effects of these decisions on the helicopter industrial base capabilities. More specifically, how will the Department of Defense ensure that the industrial base capabilities necessary for the procurement of the Comanche will remain in place in light of Seahawk and Blackhawk decisions?

Response: I believe that there will be a sufficient capability to produce the Comanche given the decisions to curtail the Seahawk and the Blackhawk procurements. During the Bottom-Up Review, we determined that the four existing full service helicopter contractors provide excess capacity and that this segment of the defense industrial base will have to be rationalized. Consideration is being given to the cost impact to the Comanche program should the market fail to close the production gap.

Question: Can you ensure that this issue will be given careful review? Also, how do you propose to address the very real problem of cutting our defense budget while preventing the crippling of our defense industrial base?

Response: We did consider the helicopter industrial base during the Bottom-Up Review. However, due to the continuing pressure on the Defense budget, the Department is unable to continue to support the helicopter industrial base at the current level. Adjustments to that base will have to occur guided by the combined demands of the commercial and defense helicopter markets.

Question: Do you support economic adjustment assistance to those workers, communities and firms affected by defense downsizing? Do you support the President's stated goal of spending over \$20 billion in this area over the next five years? What new ideas in the area of economic adjustment for the workers, communities and firms impacted by defense cuts might you suggest?

Response: The Department of Defense wholeheartedly supports economic adjustment assistance for workers, communities and firms adversely affected by defense downsizing.

We support the President's stated goal of spending over \$20 billion over the next five years in these efforts. These funds cover our newly expanded programs for individuals such as personnel transition programs, including early retirement, extended health care benefits, and worker reentry and career development assistance.

Also, we have launched a new effort to assist industry in developing dual-use technologies, in having access to state of the art manufacturing techniques through expanded technology deployment activities, and by improving the state of the nation's manufacturing education through degree and training programs.

Another category of assistance is that targeted to communities for planning and implementing economic adjustment programs in instances of contractor downsizing or for reuse and redevelopment of excess DoD land or facilities in the case of base closures.

We are especially interested in continuing to get feedback from communities all over the country as we implement various aspects of the President's five point plan to revitalize base closing communities. Planning grants are being made in record time, transition coordinators have become valued members of the base closing community, and environmental cleanup is being put on a fast track. We are in the process of developing regulations for our new authority to transfer property for economic redevelopment.

Since many of the programs mentioned above are relatively new, we need to measure results and evaluate the effectiveness of these programs in order to determine what changes or new initiatives are needed.

Chairman SABO. Mr. Secretary, thank you very much. We look forward to continuing working with you.

Secretary PERRY. Thank you, Mr. Chairman.

[Whereupon, at 12:32 p.m., the committee was adjourned.]



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